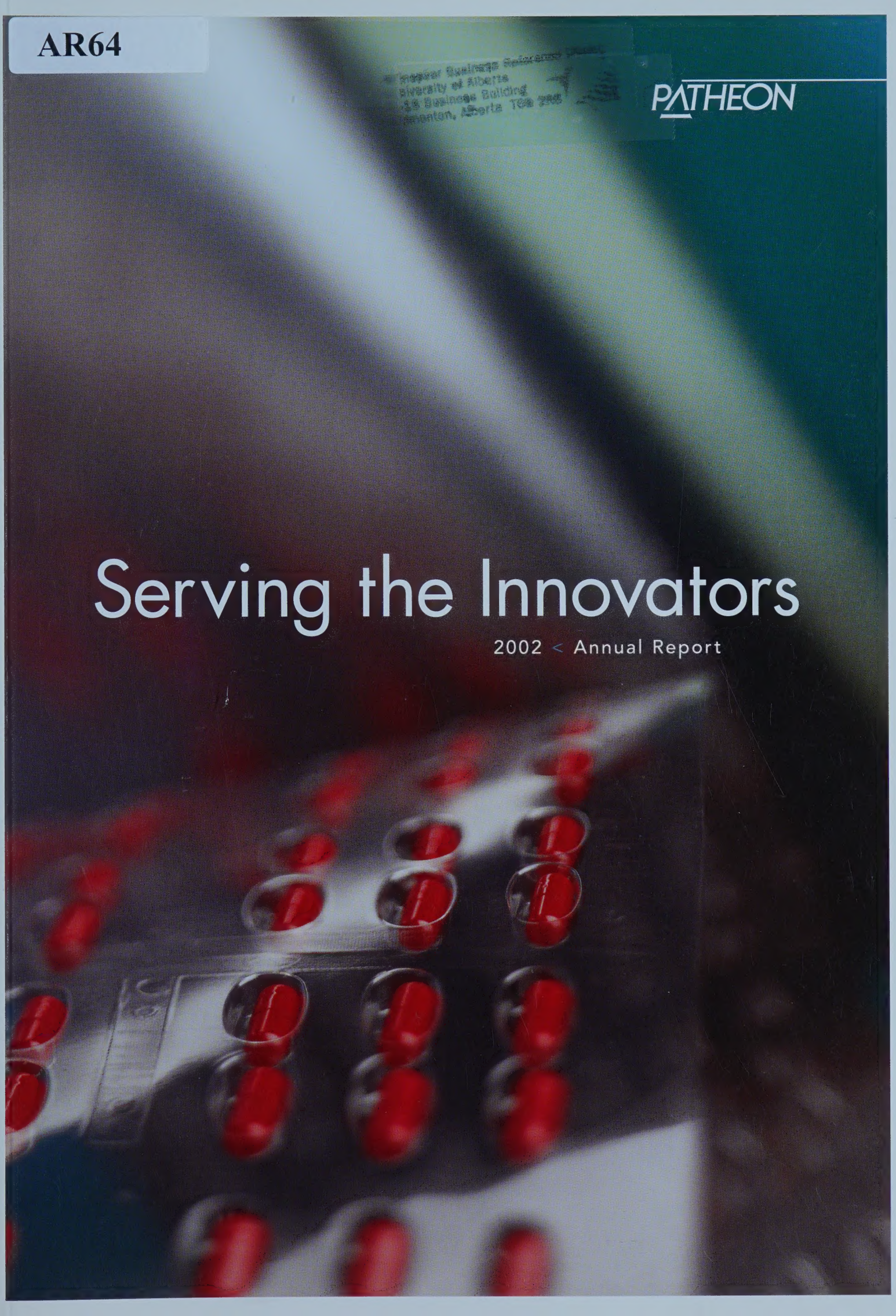
PATHEON

Serving the Innovators

2002 < Annual Report

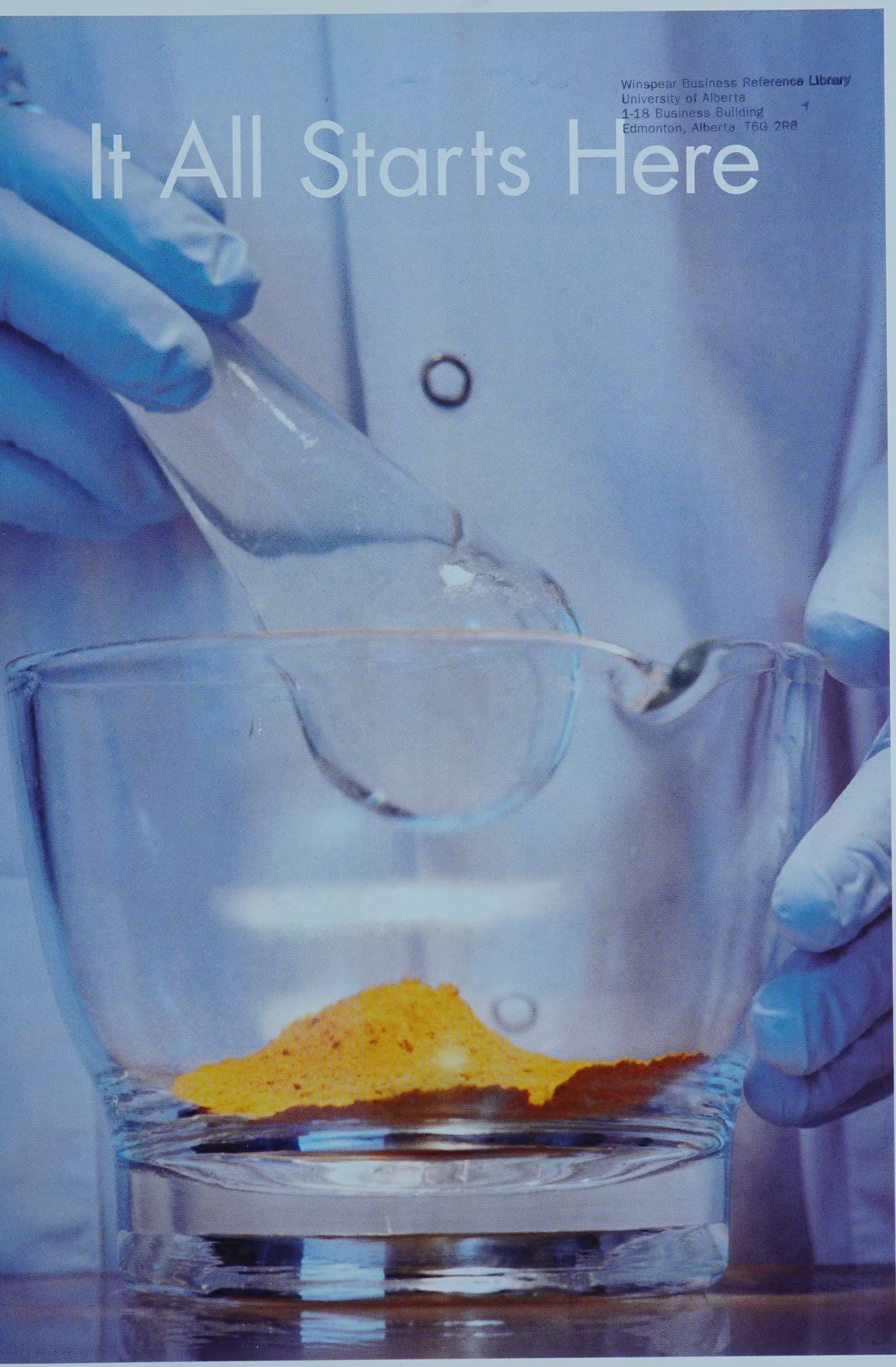


Patheon is a leading global provider of drug development and manufacturing services to the international pharmaceutical industry.

Exclusively focused on outsourcing, Patheon's strategy is to be the manufacturer of choice to the industry's innovators – the global pharma, biotech and specialty pharma companies that are bringing new therapeutic products to market.

Today, Patheon has 3,600 employees and 11 strategically located facilities in Canada, the United States, Italy, the United Kingdom and France, serving the growing outsourcing needs of the industry's leading innovators.

It All Starts Here



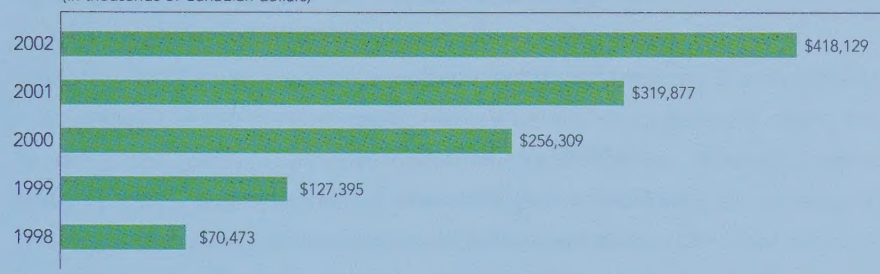
2002 FINANCIAL HIGHLIGHTS

For the years ended October 31

(in thousands of Canadian dollars except share information, per-share amounts and percentages)	2002 $	2001 $	% Change
CONSOLIDATED STATEMENTS OF EARNINGS			
Revenues	418,129	319,877	31%
Earnings before interest, taxes, depreciation and amortization (EBITDA)	56,774	41,433	37%
% of revenues	13.6%	13.0%	
Earnings before income taxes	37,366	25,739	45%
Provision for income taxes	9,160	9,418	-3%
Net earnings	28,206	16,321	73%
% of revenues	6.7%	5.1%	
PER-SHARE INFORMATION			
Earnings per share			
Basic	0.56	0.34	65%
Diluted	0.54	0.33	64%
Cash provided from operations per share	0.97	0.69	41%
Weighted average number of shares outstanding			
Basic	50,727	47,924	6%
Diluted	51,857	49,574	5%
BALANCE SHEET			
Total assets	445,571	353,174	26%
Working capital	12,226	11,803	4%
Interest-bearing debt	84,261	51,422	64%
Shareholders' equity	233,901	198,296	18%
Return on shareholders' equity	13.1%	10.4%	
Interest-bearing debt to shareholders' equity	36.0%	25.9%	
Interest-bearing debt to total capitalization	26.5%	20.6%	
Book value per share at year end	4.59	3.94	16%

Sustained Growth

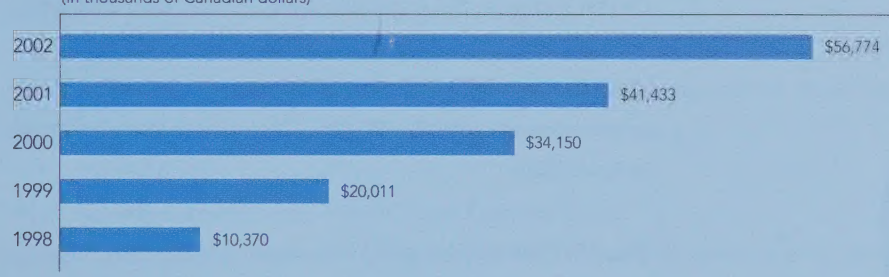
Revenues
(in thousands of Canadian dollars)



CAGR
56%

Revenues grew to $418.1 million this fiscal year and, over the past five years, have increased at a compound annual growth rate of 56%.

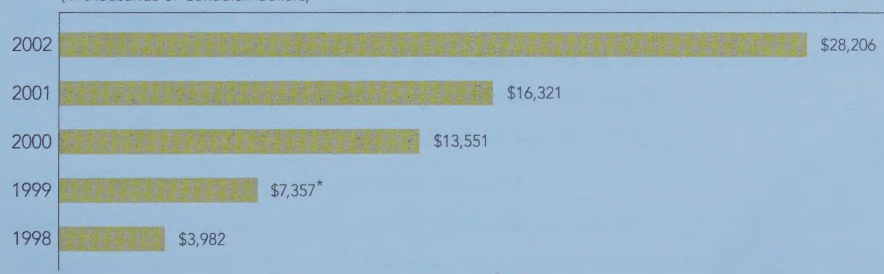
EBITDA
(in thousands of Canadian dollars)



CAGR
53%

Earnings before interest, taxes, depreciation and amortization were $56.8 million in fiscal 2002, an increase of $15.3 million over the prior year.

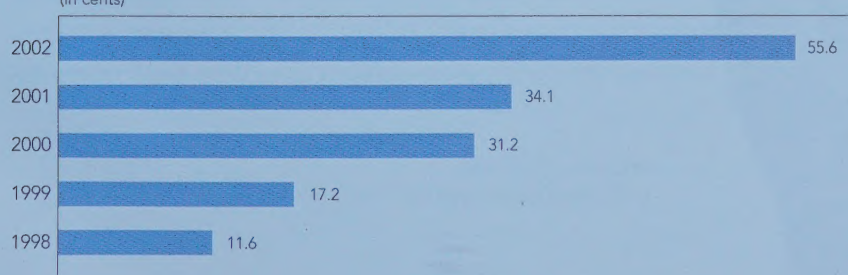
Net Earnings
*(before unusual item)
(in thousands of Canadian dollars)



CAGR
63%

Net earnings reached $28.2 million in fiscal 2002, marking another successful year of profitable growth.

EPS (basic)
(in cents)



CAGR
48%

Basic earnings per share have risen at a compound annual growth rate of 48% over the past five years, reaching 55.6¢ in fiscal 2002.

Serving the Innovators

IN 2002, WE MADE EXCELLENT PROGRESS IN OUR STRATEGY TO BE THE MANUFACTURER OF CHOICE TO THE INNOVATORS IN THE GLOBAL PHARMACEUTICAL INDUSTRY.

Fiscal 2002 marked another banner year. Patheon made excellent progress by all measures – financial results, value-added service activities, manufacturing capabilities and geographic presence – in the execution of its strategy to be the manufacturer of choice to the innovators in the pharmaceutical industry.

OVERVIEW OF THE YEAR

Our financial performance for the year ended October 31, 2002 extends our track record of double-digit growth.

Revenues increased by 31%, or $98 million, to $418 million. Of this increase, net internal growth, or net new business from existing sites, represented $66 million or 21%; the balance of $32 million was strategic growth related to the acquisition of the Whitby, Canada site from Novartis in April 2001.

The EBITDA margin of 13.6% versus 13.0% a year ago reflects continuing improvement in capacity utilization and the growth of revenues from higher-margin services. Net earnings grew 73% to $28 million, and diluted earnings per share increased 64% to 54 cents from 33 cents last year. Cash provided from operations rose 48% to $49 million or 97 cents per share.

ROBERT C. TEDFORD
CHIEF EXECUTIVE OFFICER

We measure our progress by our ability to grow the business profitably while meeting the needs of our clients for exceptionally high-quality services.

In 2002, all service activities contributed to sustain the growth. On a consolidated basis, commercial manufacturing revenues grew 27%, with prescription (Rx) manufacturing up 24% and over-the-counter (OTC) up 34%. PDS revenues, Patheon's fastest growing service activity, increased 62%. At year end, Rx, OTC and PDS activities accounted for 62%, 25% and 13% of consolidated revenues, respectively, which was comparable with last year.

Geographically, revenues from our sites in North America and Europe represented 56% and 44% of total revenues, respectively. Our North American operations continued to generate strong results across all service activities, with internal growth of 25% and a full year's revenue from the Whitby site. As anticipated, our European operations showed improved results where growth – all internal – was 16%, principally due to the increase in lyophilization revenues in Italy and pharmaceutical development services (PDS) revenues in the UK. After discounting the impact of the stronger European currencies during 2002, European growth was slightly higher than 9%.

SUSTAINING THE GROWTH

We measure our progress by our ability to grow the business profitably on a sustainable basis. In 2002, we made significant progress on three strategic fronts: the growth of our PDS business; the execution of our lyophilization strategy; and the acquisition of our first operating facility in the U.S.

PDS Business Builds Long-Term Client Relationships

Our PDS business continues to grow substantially in North America and is gaining momentum in Europe. The PDS business is critical to our strategy because it allows us to develop early-stage relationships with our clients in the clinical development phase and positions us to be the commercial manufacturer should our clients' new products receive regulatory approval. At year end, we had 62 projects in development compared with 40 at the end of the previous year. Over the last two years, we have provided our clients with manufacturing services to support the commercial launch of six new prescription pharmaceutical products.

Lyophilization Strategy Targets the Innovators

Another important driver of future growth will be our ability to provide the innovators with sophisticated, value-added manufacturing technologies. Many new therapeutic proteins and other small molecule-based products are being formulated in dosage forms that require specialized technologies like lyophilization. During the past year, we undertook and completed a major expansion of our lyophilization capacity at both our Monza and Ferentino sites in Italy. Obtaining regulatory approval before the end of fiscal 2002 was a major accomplishment and allows us to continue to increase revenues from providing these services to the innovators in the pharmaceutical industry.

Cincinnati Opens Door to the U.S.

At the end of December 2002, Patheon completed its previously announced transaction to acquire an FDA-approved site in Cincinnati, Ohio from Aventis Pharmaceuticals, together with long-term manufacturing contracts. This is a strategic milestone for your Company: it is our first step toward building and operating a strong presence in the U.S., which is the largest pharmaceutical market in the world. One of our earliest initiatives for this site will be the start-up of our U.S.-based PDS business which, together with the significant new business opportunities for our commercial manufacturing services, will serve as the platform for our increased penetration of the U.S. market.

THE RIGHT PEOPLE

Over the past year, we continued to strengthen our management team to keep pace with our growth as an organization. In addition to the appointment of a number of new site directors at our operations in Canada and Italy, as well as the strengthening of our sales and marketing group, we are especially pleased to announce the promotion of Mr. Ronald B. Mitchell to the position of Chief Financial Officer in December. Mr. Mitchell joined Patheon early in 2001 as Senior Vice-President, Finance and Treasurer.

We are also pleased to announce the appointment of Mr. John Valley to Patheon's Management Advisory Board. Mr. Valley brings valuable public and private sector experience from the resource and process industries in Canada, and advises our senior management team on government relations and corporate development initiatives.

PETER A. W. GREEN
CHAIRMAN OF THE BOARD

Exemplary corporate governance is a way of life at Patheon. Among our best practices is a commitment to straightforward financial reporting.

CORPORATE GOVERNANCE

Patheon has provided manufacturing services to the pharmaceutical industry for over 28 years and has operated as a public company for the last ten years. We understand our responsibilities to you, our shareholders, and are committed to setting and following exemplary corporate governance practices. On page 49 of this Annual Report, we present recent corporate governance initiatives intended to uphold this commitment.

CONTINUOUS IMPROVEMENT

In 2002, we continued to make significant progress in raising awareness of the Patheon "brand" as a leading service provider to the pharmaceutical industry – arguably the most highly regulated, consumer product manufacturing industry in the world. To grow and compete effectively in an environment where quality is paramount, Patheon must continue to deliver the highest standard in pharmaceutical development and manufacturing services to its clients. This is a mindset that we foster every day throughout our organization.

With the addition of the Cincinnati facility, together with internal growth in both North America and Europe, Patheon is positioned to achieve revenues approaching $600 million in fiscal 2003. As we continue to grow and mature as an organization, we are continuously improving the quality of our operations through value-added manufacturing services and technologies, by having the right capacity in the right place, and by employing the right people to serve our clients' needs. As these elements of our success come together, Patheon is becoming strategically positioned as the manufacturer of choice to the innovators bringing new drug products to market.

We extend our gratitude to our talented and dedicated employees, who are the foundation of our success. We also thank our clients and shareholders, who have not only been instrumental in our success to date, but who continue to provide us with their strong encouragement and support as we continue to execute our Company's strategic plan.

ROBERT C. TEDFORD
CHIEF EXECUTIVE OFFICER

PETER A. W. GREEN
CHAIRMAN OF THE BOARD

February 7, 2003

PDS

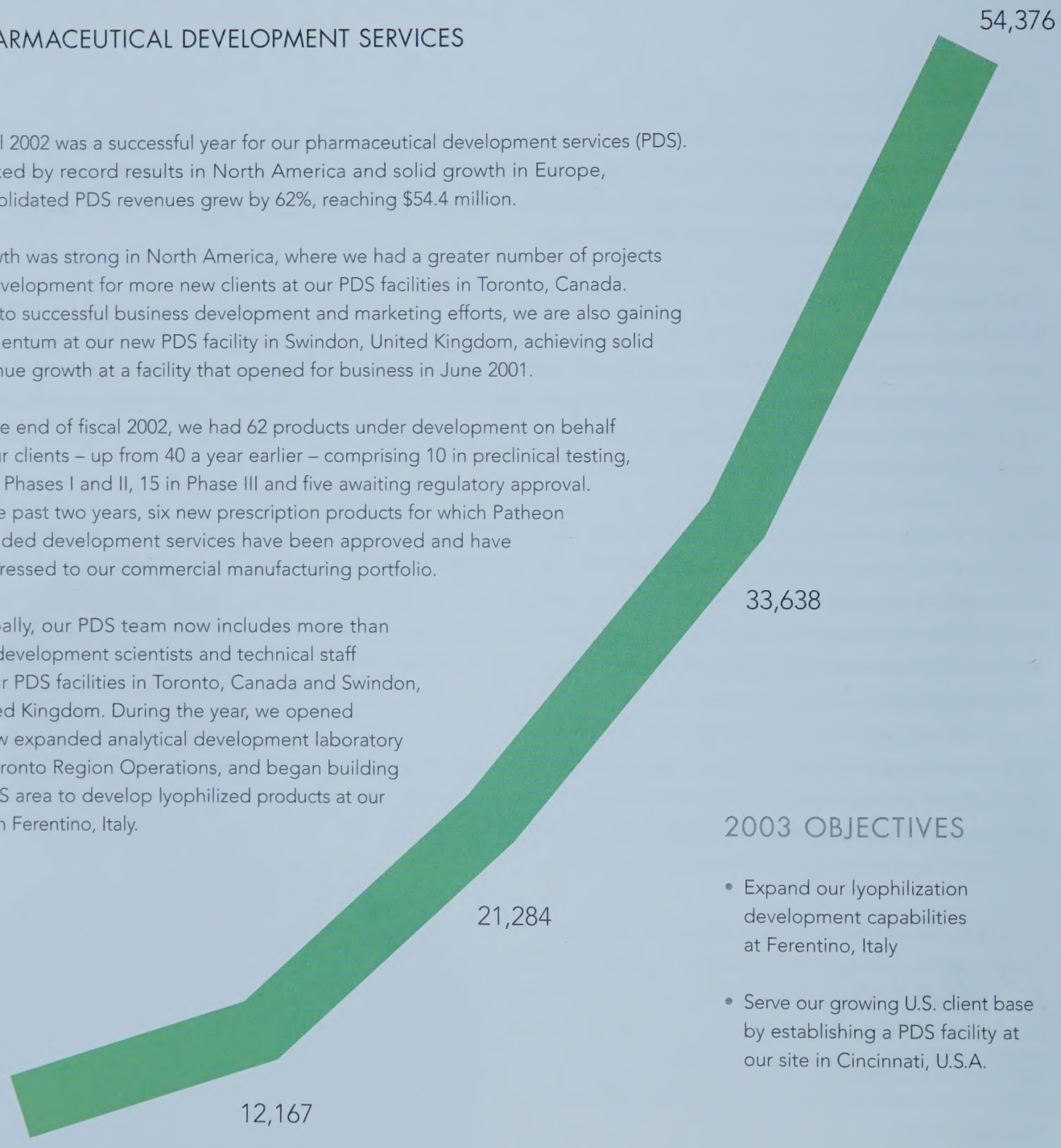
PHARMACEUTICAL DEVELOPMENT SERVICES

Fiscal 2002 was a successful year for our pharmaceutical development services (PDS). Marked by record results in North America and solid growth in Europe, consolidated PDS revenues grew by 62%, reaching $54.4 million.

Growth was strong in North America, where we had a greater number of projects in development for more new clients at our PDS facilities in Toronto, Canada. Due to successful business development and marketing efforts, we are also gaining momentum at our new PDS facility in Swindon, United Kingdom, achieving solid revenue growth at a facility that opened for business in June 2001.

At the end of fiscal 2002, we had 62 products under development on behalf of our clients – up from 40 a year earlier – comprising 10 in preclinical testing, 32 in Phases I and II, 15 in Phase III and five awaiting regulatory approval. In the past two years, six new prescription products for which Patheon provided development services have been approved and have progressed to our commercial manufacturing portfolio.

Globally, our PDS team now includes more than 250 development scientists and technical staff at our PDS facilities in Toronto, Canada and Swindon, United Kingdom. During the year, we opened a new expanded analytical development laboratory at Toronto Region Operations, and began building a PDS area to develop lyophilized products at our site in Ferentino, Italy.



2003 OBJECTIVES

- Expand our lyophilization development capabilities at Ferentino, Italy
- Serve our growing U.S. client base by establishing a PDS facility at our site in Cincinnati, U.S.A.

REVENUES	STRATEGIC ROLE	% OF TOTAL REVENUES
in millions of Canadian dollars	Through the development of early-stage relationships with clients in the drug development process, PDS positions Patheon to be the commercial manufacturer of newly approved, early lifecycle products.	in 2002
$54.4		13%

REVENUES

in millions of Canadian dollars

$259.5

STRATEGIC ROLE

Through its full breadth of conventional and specialized capabilities in Rx neutronics, Lantheus has become a preferred partner in serving the manufacturing needs of the industry's innovators.

% OF TOTAL REVENUES

in 2002

62%

Rx

COMMERCIAL MANUFACTURING OF PRESCRIPTION PRODUCTS

As our business has shifted towards higher value-added services, the portfolio of products we manufacture for our clients has grown to include an increasing number of higher profile, higher volume drugs. In 2002, Patheon was a manufacturer of ten of the world's 200 top-selling prescription (Rx) drugs, up from only one in 1998.

Our Rx manufacturing revenues have increased at a compound annual rate of 83% over the past five years, and accounted for almost two-thirds – 62% – of our total revenues in 2002 compared with just one-third in 1998.

In 2002, consolidated Rx revenues amounted to $259.5 million, up 24% year over year. Our North American Rx revenues grew 56%, due to the addition of new clients and increased revenues from newly launched products of clients to whom Patheon had provided development services. As anticipated, we also achieved improved results in Europe, where Rx revenues grew 13% in 2002. This growth – all internal – was attributable to our focused sales and marketing strategy, and increased revenues from our expanded lyophilization capacity in Italy that came on stream in the latter half of 2002.

We continue to broaden our Rx services to include more technologically advanced capabilities, such as the manufacture of high-potency, sterile injectable and lyophilized dosage forms. These are premium services that provide our clients with valued access to specialized technologies and expertise, creating continuing growth opportunities for Patheon.

2003 OBJECTIVES

- Optimize utilization of existing sites by continuing to attract new business
- Integrate the Cincinnati facility into the Patheon network
- Increase our U.S. business through our additional capacity in Cincinnati, U.S.A.

OTC

COMMERCIAL MANUFACTURING OF OVER-THE-COUNTER DRUG PRODUCTS

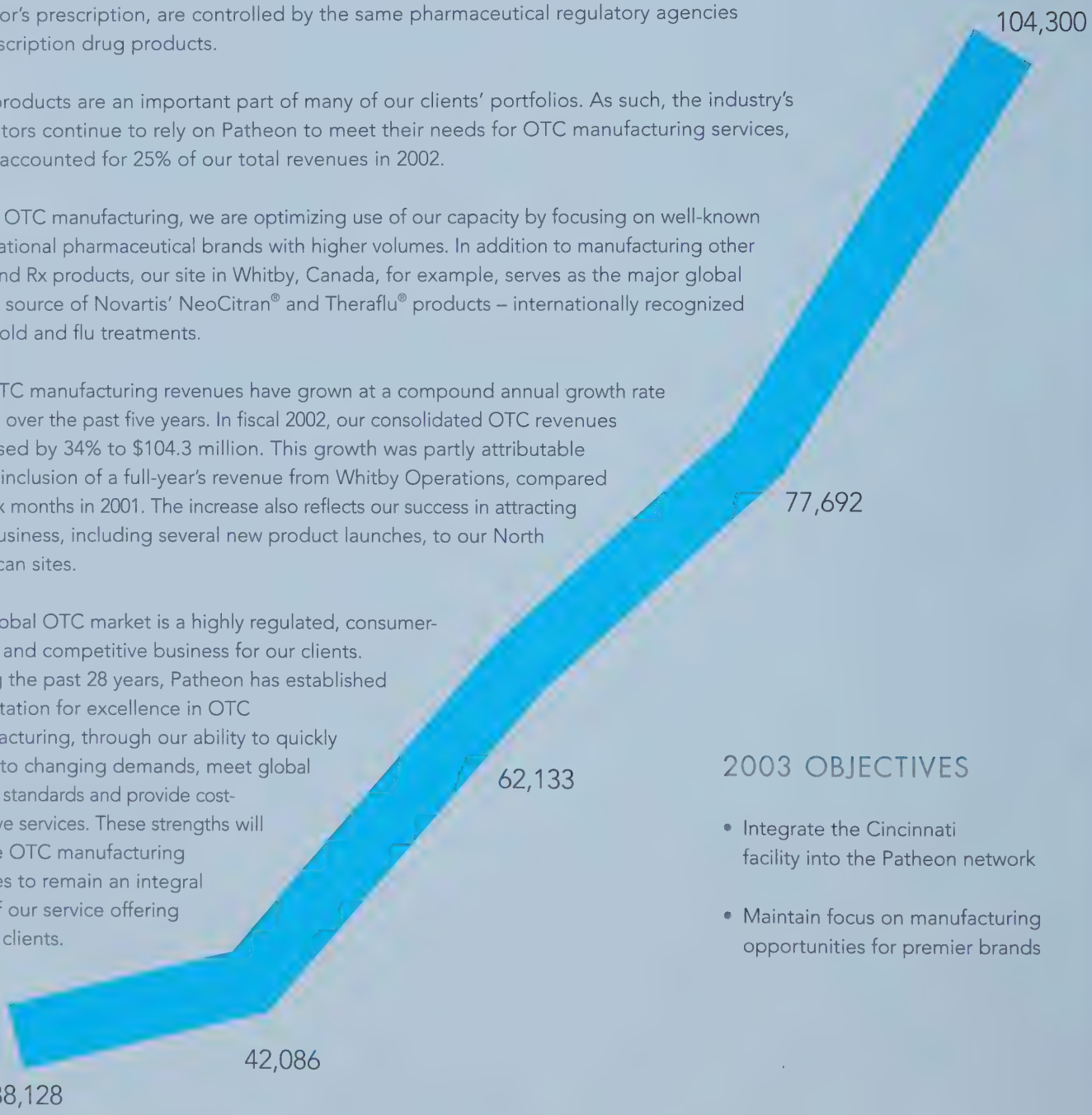
Over-the-counter drug products (OTC), which can be purchased directly by consumers without a doctor's prescription, are controlled by the same pharmaceutical regulatory agencies as prescription drug products.

OTC products are an important part of many of our clients' portfolios. As such, the industry's innovators continue to rely on Patheon to meet their needs for OTC manufacturing services, which accounted for 25% of our total revenues in 2002.

Within OTC manufacturing, we are optimizing use of our capacity by focusing on well-known multinational pharmaceutical brands with higher volumes. In addition to manufacturing other OTC and Rx products, our site in Whitby, Canada, for example, serves as the major global supply source of Novartis' NeoCitran® and Theraflu® products – internationally recognized OTC cold and flu treatments.

Our OTC manufacturing revenues have grown at a compound annual growth rate of 29% over the past five years. In fiscal 2002, our consolidated OTC revenues increased by 34% to $104.3 million. This growth was partly attributable to the inclusion of a full-year's revenue from Whitby Operations, compared with six months in 2001. The increase also reflects our success in attracting new business, including several new product launches, to our North American sites.

The global OTC market is a highly regulated, consumer-driven and competitive business for our clients. During the past 28 years, Patheon has established a reputation for excellence in OTC manufacturing, through our ability to quickly adapt to changing demands, meet global quality standards and provide cost-effective services. These strengths will enable OTC manufacturing services to remain an integral part of our service offering to our clients.



2003 OBJECTIVES

- Integrate the Cincinnati facility into the Patheon network
- Maintain focus on manufacturing opportunities for premier brands

REVENUES	STRATEGIC ROLE	% OF TOTAL REVENUES
in millions of Canadian dollars	[illegible]	in 2000
$104.3		25%

NORTH AMERICA

1,794
employees

STRATEGIC ROLE

EUROPE

1,220
employees

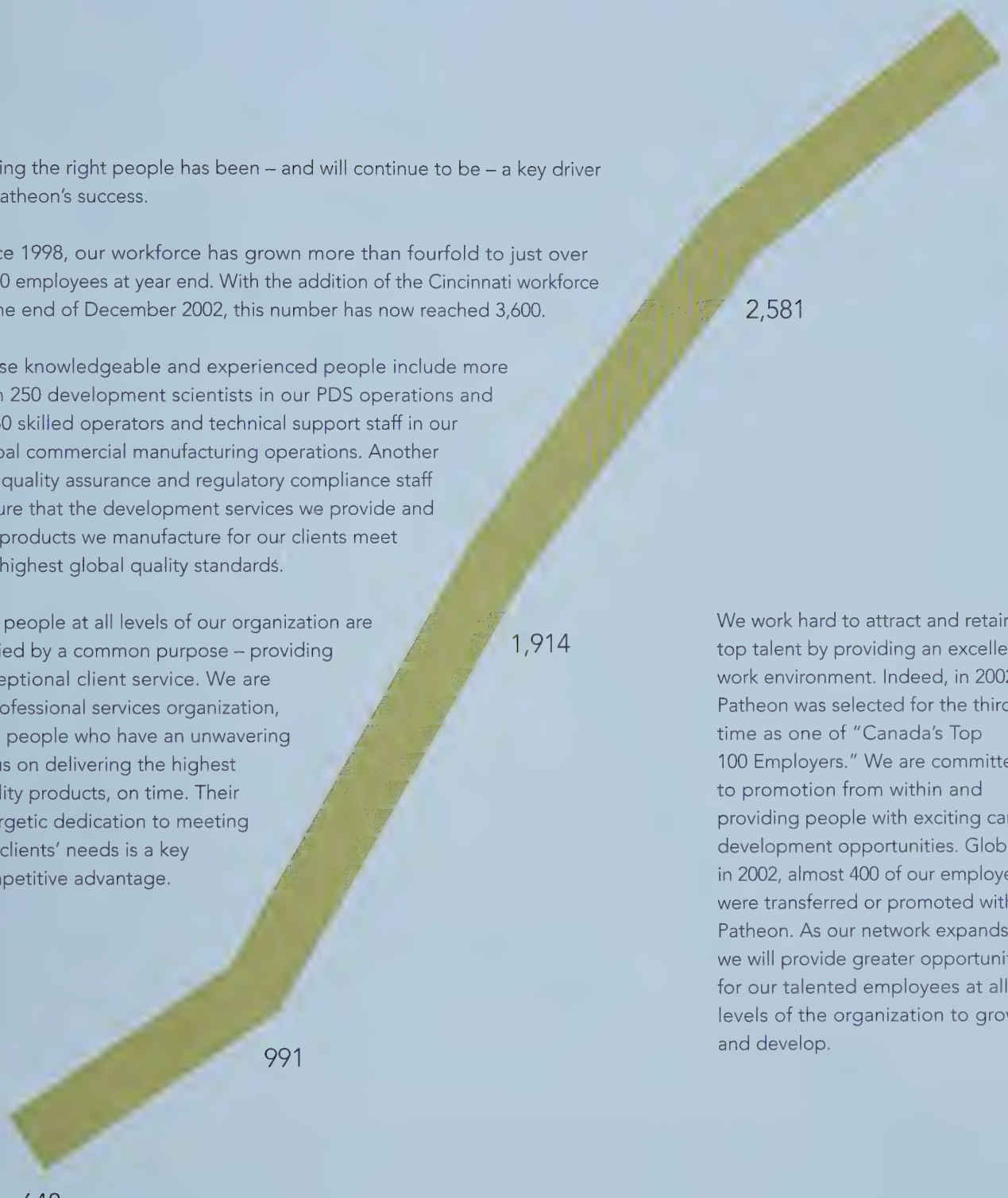
The Right People

Having the right people has been – and will continue to be – a key driver of Patheon's success.

Since 1998, our workforce has grown more than fourfold to just over 3,000 employees at year end. With the addition of the Cincinnati workforce at the end of December 2002, this number has now reached 3,600.

These knowledgeable and experienced people include more than 250 development scientists in our PDS operations and 1,850 skilled operators and technical support staff in our global commercial manufacturing operations. Another 550 quality assurance and regulatory compliance staff ensure that the development services we provide and the products we manufacture for our clients meet the highest global quality standards.

The people at all levels of our organization are unified by a common purpose – providing exceptional client service. We are a professional services organization, with people who have an unwavering focus on delivering the highest quality products, on time. Their energetic dedication to meeting our clients' needs is a key competitive advantage.



We work hard to attract and retain top talent by providing an excellent work environment. Indeed, in 2002, Patheon was selected for the third time as one of "Canada's Top 100 Employers." We are committed to promotion from within and providing people with exciting career development opportunities. Globally in 2002, almost 400 of our employees were transferred or promoted within Patheon. As our network expands, we will provide greater opportunities for our talented employees at all levels of the organization to grow and develop.

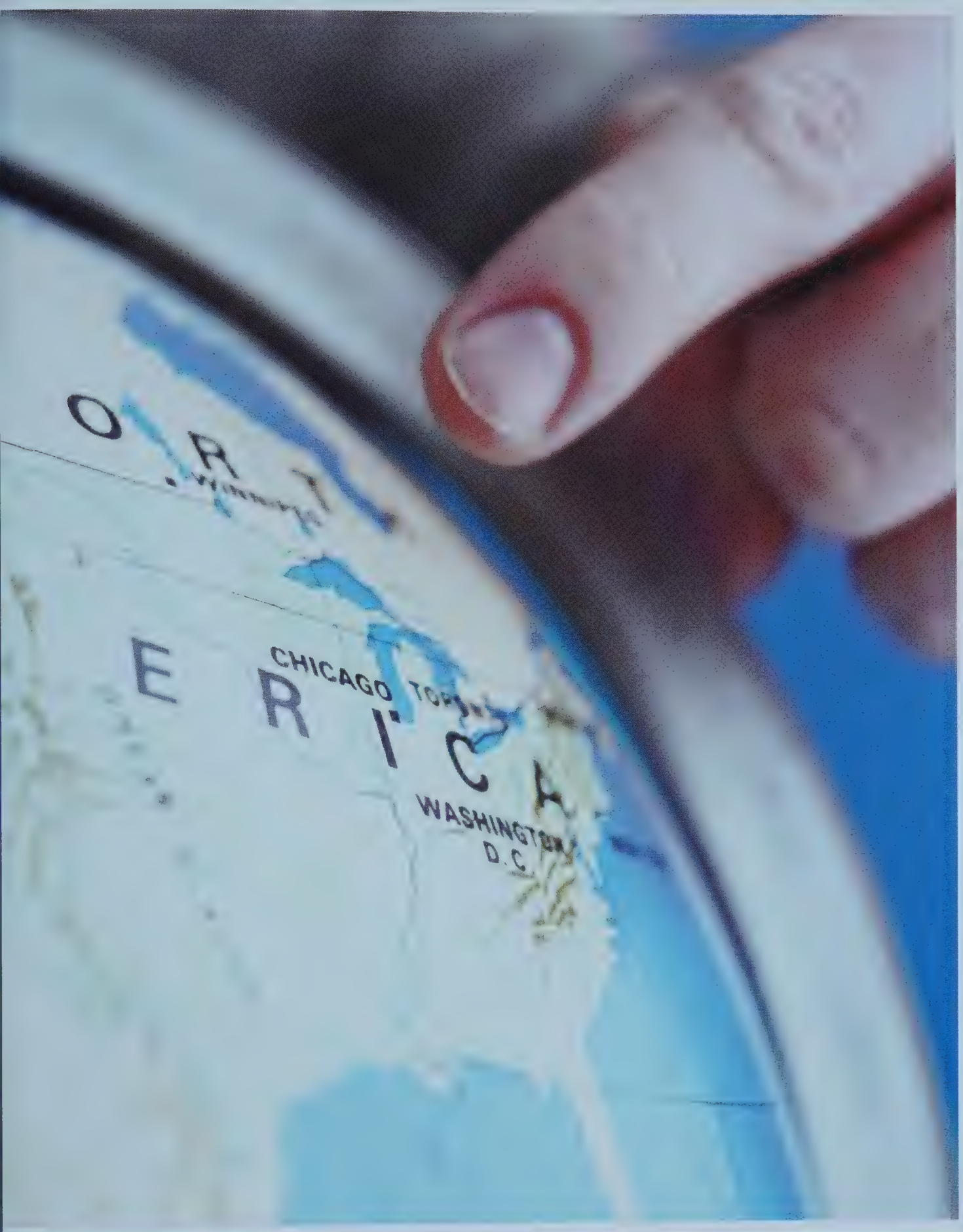
The Right Capacity

Having the right kind of capacity in the right place is fueling the growth of our integrated drug development and commercial manufacturing services.

In February 2002, as part of a broader strategy to expand our value-added manufacturing capabilities, we acquired a 144,000-square-foot sterile manufacturing facility in Ferentino, Italy, near Rome. In addition to lyophilization and parenteral commercial manufacturing services, the Ferentino site is able to provide pilot-scale quantities of lyophilized products as part of a drug development mandate. This is the first step in our plan to build a PDS organization in Ferentino, complementing our PDS facilities in Toronto, Canada and Swindon, United Kingdom.

In October, Patheon announced the acquisition from Aventis Pharmaceuticals of a facility in Cincinnati, Ohio – Patheon's first in the United States. With the completion of this acquisition in December 2002, Patheon added 457,000 square feet of capacity to serve its growing U.S. client base, and increased its total global manufacturing capacity to over 2.3 million square feet. Strategically located on a life sciences campus with the University of Cincinnati, the site includes an 85,000-square-foot development facility – providing an ideal platform to expand Patheon's successful PDS business in the United States.

In addition to acquiring new sites, we also believe in the importance of continually investing in our existing sites. We invested $55.1 million of project-related capital in our existing sites in 2002 – to expand capacity and ensure that our facilities have the right capabilities to meet the needs of our clients.



NORTH AMERICA

792,800
square feet

STRATEGIC ROLE

With world-class facilities and expertise on two continents, Parker is well positioned to meet the needs of the aerospace for over-the-road transportation and industrial manufacturing markets.

EUROPE

1,053,000
square feet

GLOBAL PHARMACEUTICAL MARKET

Europe and the U.S. together accounted for 65% of the US$400 billion global pharmaceutical market in 2002. With seven facilities in North America and four in Europe, Patheon is well positioned to serve as a strategic outsourcing partner in the world's two largest pharmaceutical markets.

The Right Time

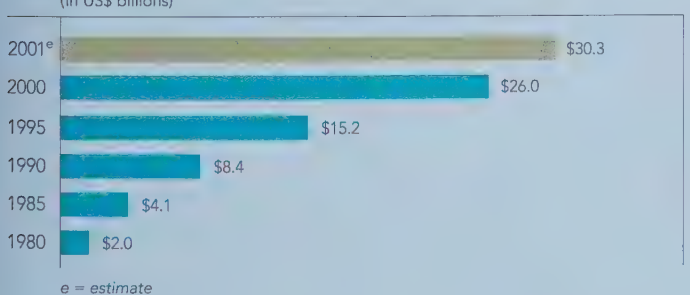
Changes in the pharmaceutical landscape are creating an increasingly diverse range of opportunities for Patheon. In addition to serving 16 of the world's 20 largest pharmaceutical companies, Patheon's worldwide client base in 2002 included 4 of the 10 largest biotech companies and 4 of the top 10 specialty pharma companies.

Patheon provides services to an attractive industry. Global pharmaceutical revenues were estimated to be US$400 billion in 2002[2] and are forecast to grow at an annual average rate of 9% through 2005[3]. This growth is being driven by demographic trends, the development of new drugs for previously untreated conditions, and the relative cost-effectiveness of prescription medicines compared with hospital-based care.

DRUG DEVELOPMENT: THE TIME-TO-MARKET IMPERATIVE

With the patents on more than 50 of the world's top 100 drugs due to expire by 2005[4], pharmaceutical companies are investing in R&D at record levels to create new products, (see chart below). It is estimated that the cost of bringing a drug to market today can require an investment as high as US$800 million over a 10-12 year period.[5] To free more resources for innovation and drug discovery, large pharma companies are rationalizing their global manufacturing networks and relying increasingly on supply-chain partnerships with high quality contract manufacturing companies.

PhRMA Member Companies – R&D Spending
(in US$ billions)



e = estimate

U.S. research-based pharmaceutical companies spent US$30.3 billion on R&D in 2001, up 17% from 2000 and more than triple the investment in 1990[5].

1 Based on March 2002 market capitalization of global pharma companies, May 2002 market capitalization of biotech companies and 2001 revenues of specialty pharma companies
2 IMS Health, Pharma-Prognosis International 2001-2005
3 Arlington, Dr. S., PricewaterhouseCoopers, "Pharma 2005: The Challenges," March 7, 2001
4 Tufts Centre for the Study of Drug Development, November 2001
5 Pharmaceutical Research and Manufacturers of America (PhRMA), Industry Profile 2002
6 Ernst & Young Global Health Sciences, "Beyond Borders: The Global Biotechnology Report 2002," June 2002

COMMERCIAL MANUFACTURING: GROWING DEMAND FOR SPECIALIZED COMMERCIAL SERVICES

A decade ago, pharmaceutical companies were outsourcing the manufacture of products requiring traditional technologies such as liquid, solid and semi-solid dosage forms. Today, they are relying on contract manufacturers to supply products requiring more specialized technologies, such as high-potency, sterile and lyophilization. These technologies often need a level of investment that is not economically feasible for the in-house manufacture of only one or two products.

GROWING OPPORTUNITIES

Changes in the pharmaceutical landscape are creating an increasingly diverse range of opportunities for Patheon – in both drug development and commercial manufacturing.

- Biotech companies, which now number 4,000 globally, with approximately 300 products in late-stage development[6], often focus their capital on drug discovery and rely on outsourcing partners to meet their development and manufacturing needs.

- Global pharma companies are relying increasingly on contract drug development suppliers to help move high-potential New Chemical Entities through the various stages of evaluation more quickly.

- Specialty pharma companies, which focus on marketing a small number of drugs typically with sales of between $100 million and $300 million, are showing a greater interest in working with contract manufacturers for their supply and development needs.

With its international presence and integrated services, Patheon is serving the industry's leading innovators at an opportune time.

Management's Discussion and Analysis

of Financial Condition and Results of Operations

In fiscal 2002, Patheon served more than 100 industry innovators, including 16 of the world's 20 largest pharmaceutical companies, 4 of the 10 largest biotech companies and 4 of the top 10 specialty pharma companies.

Patheon Inc. ("Patheon" or "the Company") is one of the world's largest independent providers of commercial manufacturing and development services for prescription (Rx) and over-the-counter (OTC) drugs to the international pharmaceutical industry. Patheon's vision is to be the pre-eminent provider of pharmaceutical outsourcing services across all dosage forms. At October 31, 2002 the Company owned and operated six manufacturing facilities in and around Toronto, Canada, which comprised 792,800 square feet of capacity, and four manufacturing facilities in Europe: Monza (near Milan), Italy; Ferentino (near Rome), Italy; Swindon, United Kingdom; and Bourgoin-Jallieu (near Lyon), France, which comprised 1,053,000 square feet of capacity.

Patheon's commercial manufacturing activities relate primarily to Rx and OTC products in solid, semi-solid, liquid and sterile dosage forms. The Company manufactures a wide variety of products in many packaging formats to client specifications. The Company can be responsible for each aspect of the manufacturing and packaging process, from sourcing raw materials and packaging components to delivering the finished product in consumer-ready form to the clients' distribution facilities. In most cases, Patheon's clients provide the Company with the active ingredients required for the production of the products. The manufacture of Rx and OTC products accounted for approximately 62% and 25%, respectively, of the Company's revenues in fiscal 2002.

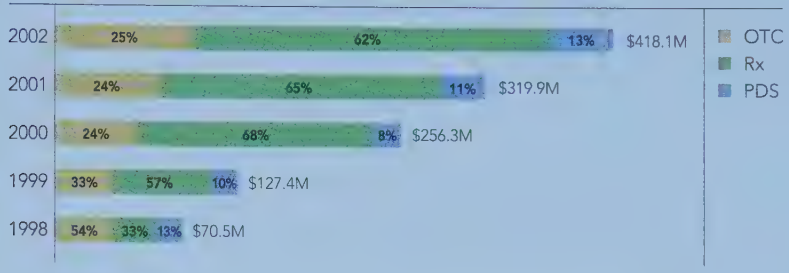
Patheon's pharmaceutical development services (PDS) include dosage form development, analytical methods development, pilot batch manufacture of new products for the regulatory drug approval process and the provision of scale-up services designed to determine if a drug can be manufactured in commercial volumes. Pharmaceutical development services accounted for approximately 13% of the Company's revenues in fiscal 2002.

CONSOLIDATED REVENUES

Consolidated revenues for the year ended October 31, 2002 increased by 31% to $418.1 million from $319.9 million in 2001. In fiscal 2002, all service activities contributed to sustaining the growth. Commercial manufacturing revenues increased 27%, with Rx up 24% and OTC up 34%. PDS revenues increased 62% over the previous fiscal year. Net internal growth, or new business from existing sites, was 21%, or $65.8 million. The balance of the increase in revenues for the year, representing strategic growth, related to the acquisition of the Whitby, Canada site from Novartis Pharmaceuticals Canada Inc. in April of 2001.

Fiscal 2002 results include the benefits of the long-term manufacturing and supply agreements with Novartis Pharmaceuticals Canada Inc. and its affiliates, entered into at the time of the purchase of the Whitby, Canada site in April 2001. Fiscal 2001 results include six months of operations of the Whitby site.

Revenues by Service Activity
(% of total revenues)



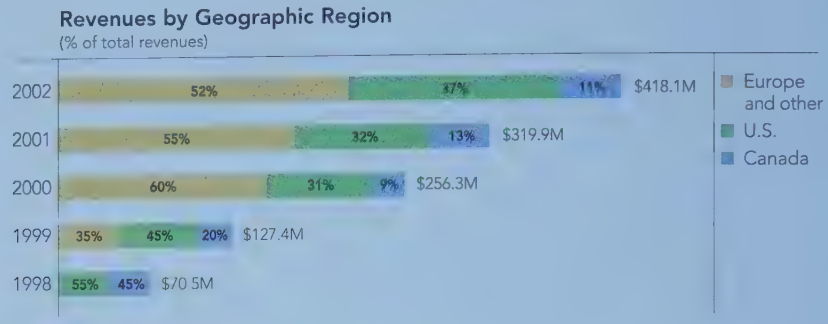
Results of Consolidated Operations

Years ended October 31 (in thousands of Canadian dollars, except percentages and per-share amounts)	2002 $	2001 $	% Change
Revenues	418,129	319,877	31%
Operating expenses	361,355	278,444	30%
Earnings before depreciation, amortization, interest and income taxes	56,774	41,433	37%
(% of revenues)	13.6%	13.0%	
Depreciation and amortization	16,268	12,685	28%
Interest	3,140	3,009	4%
Earnings before income taxes	37,366	25,739	45%
Provision for income taxes	9,160	9,418	-3%
Net earnings for the year	28,206	16,321	73%
(as a % of revenues)	6.7%	5.1%	
Earnings per share			
Basic	$0.56	$0.34	65%
Diluted	$0.54	$0.33	64%

Quarterly Consolidated Financial Information

(in thousands of Canadian dollars, except per-share amounts)

			EBITDA per share			Earnings per share	
	Revenues $	EBITDA $	Basic $	Diluted $	Net earnings $	Basic $	Diluted $
2002							
January 31	93,625	10,910	0.22	0.21	4,428	0.09	0.09
April 30	103,228	12,788	0.25	0.25	6,083	0.12	0.12
July 31	108,742	16,226	0.32	0.31	8,442	0.17	0.16
October 31	112,534	16,850	0.33	0.32	9,253	0.18	0.17
	418,129	56,774	1.12	1.09	28,206	0.56	0.54
2001							
January 31	64,216	7,861	0.17	0.16	2,982	0.06	0.06
April 30	70,347	9,828	0.21	0.20	3,860	0.08	0.08
July 31	86,581	9,835	0.20	0.20	3,635	0.08	0.07
October 31	98,733	13,909	0.28	0.27	5,844	0.12	0.12
	319,877	41,433	0.86	0.83	16,321	0.34	0.33



REVENUES BY GEOGRAPHIC REGION AND SERVICE ACTIVITY

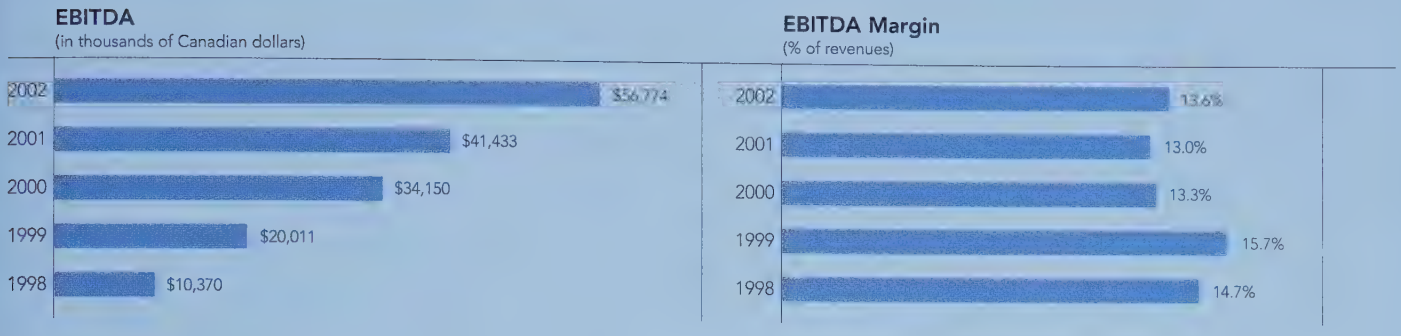
North American sales and marketing activities continued to be effective and net internal growth in North America was 25%, or $40,936,000.

The Company achieved improved results in Europe where growth, all internal, was 16%. After discounting the impact of the stronger European currencies during 2002, European growth was slightly higher than 9%. The increase in lyophilization revenues in Italy and PDS revenues in the UK were the key contributors to European growth in 2002.

In the 2002 fiscal year, commercial manufacturing of prescription drugs and pharmaceutical development services represented 75% of revenues, compared with 76% in 2001. Excluding the impact of the strategic revenues related to the new manufacturing contracts at Whitby, Canada which included significant OTC revenues, higher-margin prescription manufacturing and pharmaceutical development services represented 78% of revenues, compared with 79% in 2001.

Revenues by Geographic Region and Service Activity

Years ended October 31 (in thousands of Canadian dollars, except percentages)	2002 $	2001 $	% Change
North America			
Commercial Manufacturing			
Prescription	83,070	53,101	56%
Over-the-counter	101,889	75,059	36%
	184,959	128,160	44%
Pharmaceutical Development Services	50,133	33,561	49%
	235,092	161,721	45%
Europe			
Commercial Manufacturing			
Prescription	176,383	155,446	13%
Over-the-counter	2,411	2,633	-8%
	178,794	158,079	13%
Pharmaceutical Development Services	4,243	77	
	183,037	158,156	16%
Total			
Commercial Manufacturing			
Prescription	259,453	208,547	24%
Over-the-counter	104,300	77,692	34%
	363,753	286,239	27%
Pharmaceutical Development Services	54,376	33,638	62%
Consolidated Revenues	418,129	319,877	31%



Geographically, revenue growth in North America for 2002 was $73.4 million or 45% over 2001. This increase was driven by continued strong growth in PDS, up 49%, and increases in OTC and Rx commercial manufacturing revenues, up 36% and 56%, respectively, principally due to the impact of the Whitby acquisition and strong year-over-year performance at the Company's other North American sites. Revenues from sites in North America represented 56% of total revenues, compared with 51% a year earlier.

In Europe, revenues were 16% higher than in 2001. European currencies on average strengthened slightly through the first half, then more considerably in the second half, compared with the same periods last year. The impact on reported revenues is an increase of approximately $10.2 million over the same period last year, the majority occurring in the third and fourth quarters. Had exchange rates remained constant, the increase in revenues for Europe would have been slightly higher than 9% and earnings per share would have been reduced by 1.8 cents, substantially all occurring in the third and fourth quarters. The Company benefitted from the strong commercial revenues from its Italian operations and the steady growth in revenues from its PDS operations at Swindon, UK.

OPERATING EXPENSES

Operating expenses comprise processing costs, marketing, sales, service, corporate support and administrative expenses. In fiscal 2002, operating expenses increased by 30% over the previous year and, as a percentage of revenues, represented 86% compared with 87% in 2001. The increase in expenses was the result of higher staffing levels, increased selling, marketing and administrative expenses in North America and Europe to support growing business volumes, and the impact in 2002 of 12 months of operating costs of the Whitby, Canada site, compared with six months in 2001. Patheon continues to invest in building its sales and marketing team, as well as other functional areas, in order to continue to realize and manage available growth opportunities.

EBITDA

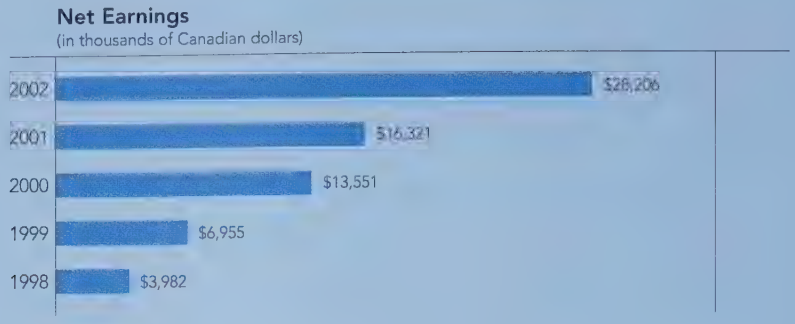
EBITDA, representing earnings before interest, income taxes, depreciation and amortization, increased by 37% to $56.8 million in 2002 from $41.4 million a year earlier. Over the past five years, the Company has achieved a compound annual growth rate in EBITDA of 53%.

EBITDA MARGIN

As a percentage of revenues, the EBITDA margin improved to 13.6% in 2002 from 13.0% a year earlier, reflecting continuing improvement in the utilization of the Company's manufacturing capacity and the growth of its higher-margin PDS business.

DEPRECIATION AND AMORTIZATION EXPENSES

Depreciation and amortization expenses of $16.3 million were $3.6 million higher than the prior year and represented 3.9% of revenues compared with 4.0% in 2001. The increase of $3.6 million was due principally to incremental depreciation expense recorded as a result of the expansion of lyophilization assets in Italy and the full-year impact in 2002 of the acquisition of the Whitby, Canada site. The remainder of the increase was due to the increased capital spending at other sites in North America and Europe.



INTEREST EXPENSE

Interest expense for 2002 was $3.1 million, comparable with $3.0 million in 2001. The increase in long-term debt of approximately $33 million in 2002 arose mainly in the third and fourth quarters and therefore interest expense for 2002 does not reflect the full-year impact of the additional debt. Of the $33 million in new long-term debt, approximately $23 million relates to new financing in Italy which bears interest at Euribor (three months) plus 1.1% (4.4% at October 31, 2002).

Earnings before interest, income taxes, depreciation and amortization (EBITDA) were 18.1 times higher than interest expense in 2002, compared with 13.8 times in 2001. Earnings before interest and taxes (EBIT) were 12.9 times higher than interest expense in 2002, compared with 9.6 times in 2001.

The weighted average rate of interest paid on both short- and long-term debt during 2002 was 5.7% compared with 6.6% a year earlier. The reduction in the average interest rate was due to the general easing of global interest rates in both North America and Europe in 2002.

At the end of the 2002 fiscal year, the interest rate structure of the Company's interest-bearing debt was as follows:

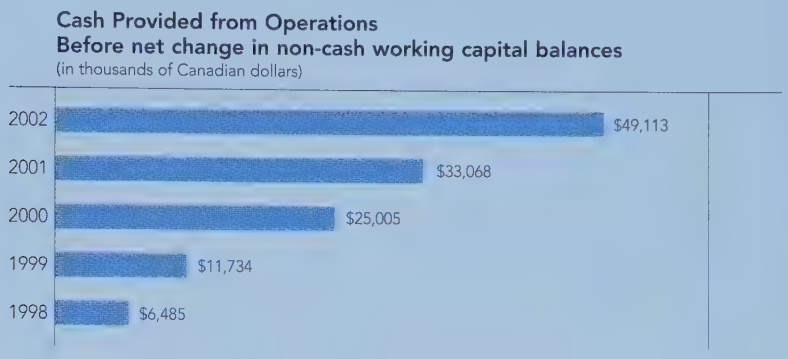
Fixed rate	22%
Variable rate	
Based on Canadian prime	29%
Based on Euribor	34%
Based on UK base rate	15%

EARNINGS BEFORE INCOME TAXES

Earnings before income taxes increased 45% to $37.4 million in fiscal 2002 from $25.7 million a year ago.

INCOME TAXES

The effective income tax rate for 2002 was 24.5%, compared with 36.6% in the same period in the prior year. As explained in Note 12 to the Consolidated Financial Statements, the income tax provision for 2002 reflects the recording of a tax credit of $3.6 million arising in the Company's Italian operations. This credit is available for specified qualifying capital expenditures in Italy for the period from August 1, 2001 to October 31, 2002. The incentive results in a deduction from taxable income. Excluding the impact of this credit, the effective tax rate for 2002 would have been 34.2%, compared with 36.6% in the prior year.



The effective tax rate is sensitive to the portion of income earned in lower income tax jurisdictions such as the United Kingdom (30%) and Canada (34%) relative to higher income tax jurisdictions such as Italy (36%) and France (35%). In 2001, Italy announced a major review of its corporate tax programs, specifically IRPEG, related to corporate income tax, and IRAP, a non-deductible tax assessed on a taxable base composed principally of labour costs. The combined impact of IRAP and the non-deductible IRPEG can result in an effective tax rate related to the Company's Italian operations in the 40% range. The introduction of the Tremonti bis credit for certain qualifying capital expenditures was a partial response by the Italian government to the high corporate tax environment in Italy. Effective January 1, 2003, the corporate income tax rate in Italy was reduced to 34% from 36%. No changes have been announced with respect to IRPEG, or the continuation of the Tremonti bis credit beyond October 31, 2002, although the Italian government continues to review its corporate tax programs in the context of other EU jurisdictions.

NET EARNINGS

Net earnings in fiscal 2002 increased by 73% to $28.2 million from $16.3 million in the previous year.

Basic earnings per share were $0.56 compared with $0.34 last year – an increase of 65%.

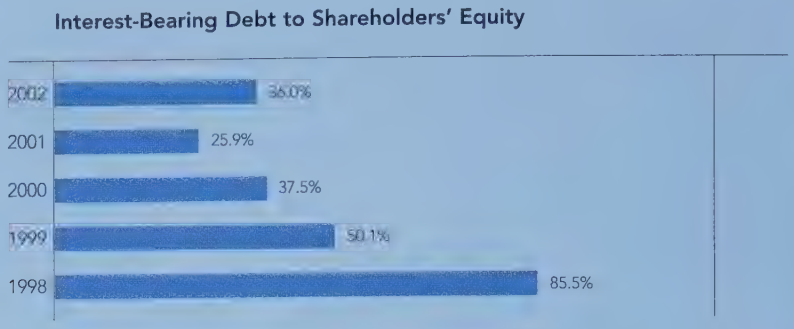
Diluted earnings per share were $0.54 compared with $0.33 in 2001, an increase of 64%. Dilution arises solely from the Company's stock option plan. The dilutive impact was $0.02 cents or approximately 4% in 2002, compared with $0.01 cents or approximately 3% in 2001.

In the 2002 fiscal year, the average number of basic shares increased by approximately 6% over the 2001 fiscal year and the average number of diluted shares increased by approximately 5% over the prior fiscal year. The average number of shares outstanding includes the impact of the June 2001 share issue for twelve months in 2002 and for four months in 2001.

LIQUIDITY AND CAPITAL STRUCTURE

For the year ended October 31, 2002, cash provided from operations (before net change in non-cash working capital balances related to operations) increased to $49.1 million ($0.97 per share) from $33.1 million ($0.69 per share) in 2001, an increase of 48%.

Working capital requirements at October 31, 2002 were $12.2 million compared with $11.8 million at October 31, 2001. The working capital ratio at October 31, 2002 was 1.10:1 compared with 1.12:1 at October 31, 2001. Cash and cash equivalents decreased by $1.7 million to $9.2 million in fiscal 2002, as the Company used available cash resources to finance a portion of its capital expansion program.



In 2002, the Company had financing requirements of $81.8 million, comprising working capital requirements of $11.2 million and additions to capital assets and deferred pre-operating costs of $70.6 million. These financing requirements were met principally through cash from operations of $49.1 million and by accessing credit facilities of $30.4 million.

ADDITIONS TO CAPITAL ASSETS

The Company had additions to capital assets of $64.5 million in 2002 compared with $42.5 million in 2001.

The increase in capital expenditures of $22.0 million over the prior year reflects higher project-related capital expenditures of approximately $28.7 million, including the cost of the Ferentino, Italy site, net of a decrease in sustaining capital improvements of approximately $6.7 million. Project-related expenditures are defined as outlays that will generate growth in capacity and revenues, while sustaining expenditures relate to the preservation of existing assets and capacity. At the end of the fiscal year, the Company had major project-related programs underway at its facilities in Monza, Italy and Ferentino, Italy, principally related to the new sterile area and expansion of lyophilization services, and at its Swindon, UK facility, principally related to sterile commercial manufacturing services. At October 31, 2002, the Company had commitments of $12.7 million to complete capital projects under way in North America and Europe, the majority of which are expected to be incurred in the 2003 fiscal year.

DEFERRED PRE-OPERATING COSTS

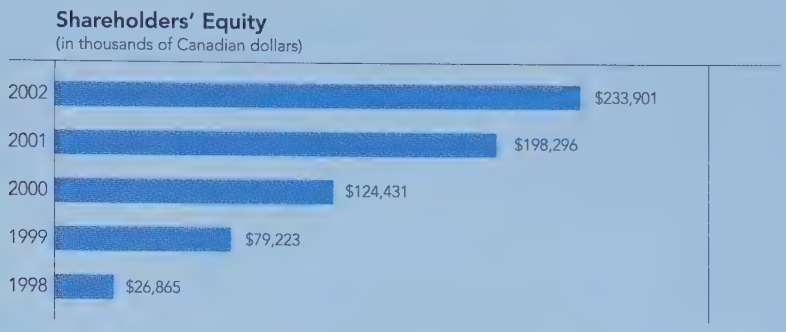
The Company had deferred pre-operating costs of $6.2 million and $4.4 million in 2002 and 2001, respectively. Deferred pre-operating costs relate to the start-up of the PDS operations in the UK and the start-up of the Ferentino, Italy operations in late 2002. Deferred pre-operating costs are amortized on a straight-line basis over a period of five years from date of start-up.

INTEREST-BEARING AND LONG-TERM DEBT

At October 31, 2002, the Company had consolidated interest-bearing debt of $84.3 million, consisting primarily of $46.9 million of the long-term debt of the Company's Italian subsidiary and $23.7 million of short-term bank indebtedness.

In June 2002, the Company completed a new financing agreement with its principal banker for its Italian operations, Banca IntesaBci Mediocredito S.p.A. This new agreement provides long-term facilities in the amount of euros 15 million (C$23.1 million), which was fully drawn by October 31, 2002. No principal payments are required until June 30, 2004, at which time equal, semi-annual principal payments commence and continue through December 31, 2011. The amount drawn bears interest at Euribor (3 months) plus 1.1% thereafter. The rate on this facility was 4.36% at the end of 2002. The facilities are secured by mortgages on the Monza, Italy and Ferentino, Italy properties and are non-recourse to the Company.

In fiscal 2002, the Company's interest-bearing debt-to-equity ratio was 36.0% compared with 25.9% in 2001. At October 31, 2002, the Company's consolidated ratio of interest-bearing, long-term debt (including current portion) to shareholders' equity was 25.7% compared with 13.7% at October 31, 2001. At October 31, 2002, long-term debt represented 19.2% of invested capital, defined as interest-bearing long-term debt, future tax liabilities and shareholders' equity, compared with 11.5% in 2001.



SHAREHOLDERS' EQUITY

At October 31, 2002, shareholders' equity was $233.9 million, compared with $198.3 million at year end 2001. The increase was the result of net income of $28.2 million generated in 2002, plus the change in the cumulative translation adjustment account classified in shareholders' equity. During 2002, the Company issued 617,097 common shares under its stock option plan for proceeds of $1.1 million.

Exchange gains and losses on translation of the Company's net equity investments in foreign operations are deferred and form the cumulative translation adjustment account, a component of shareholders' equity. Throughout fiscal 2002, the British pound and the euro strengthened from the time the Company made its investments in its European businesses. At October 31, 2002, the positive cumulative translation adjustment was $4.0 million, compared with a negative cumulative translation adjustment of $2.2 million at October 31, 2001. The cumulative translation adjustment amount will be impacted by fluctuations in the value of the Canadian dollar relative to the euro and the British pound.

ACCOUNTING POLICIES

In June 2001, the Canadian Institute of Chartered Accountants issued new recommendations with respect to Business Combinations and Goodwill and Intangible Assets, effective for fiscal years beginning on or after January 1, 2001. Under the new recommendations, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the new recommendations. Other intangible assets will continue to be amortized over their useful lives. The impact of this change on the net earnings and earnings per share for 2002, and the impact had this change been applied in 2001, were not material. The Company has carried out a test for impairment of goodwill for the 2002 fiscal year and has determined that no write-down of goodwill is warranted.

In December 2001, the Canadian Institute of Chartered Accountants issued new recommendations with respect to stock-based compensation, effective for fiscal years beginning on or after January 1, 2002. Under the recommendations, companies are required to account for all issuances of stock or stock options to non-employees in exchange for goods or services, direct awards of stock in exchange for employee services and stock appreciation rights at fair value (using an option pricing model for stock options). Companies are encouraged, but not required, to use the fair value method for all stock-based compensation paid to employees. Specifically, the fair value method does not have to be applied to stock option plans where the only choice is for the employee to pay the exercise price and obtain stock. The new standard applies only to awards granted after the adoption date. The appropriate accounting for stock-based compensation continues to be debated by the accounting and regulatory bodies. Until such time as there is clarity as to the rules regarding accounting for stock-based compensation, the Company intends to follow the intrinsic value approach in its 2003 fiscal year financial reporting, and appropriate disclosure will be provided in the fiscal 2003 financial statements.

ENVIRONMENTAL, HEALTH AND SAFETY

The Company has a commitment to safeguard the health of employees and the quality of the environment. Highly qualified environmental, health and safety professionals at all Company locations are dedicated to the maintenance and improvement of programs and procedures to ensure continued employee and environmental protection. To the best of the Company's knowledge, all of its facilities are in compliance with environmental and occupational health and safety regulations.

RISKS AND UNCERTAINTIES

For a more detailed discussion of the risk factors that could materially affect the results of operations and the financial condition of the Company, please refer to the Company's Annual Information Form.

Foreign Currency

The Company's foreign exchange exposure continues to be significant. In fiscal 2002, approximately 66% of the revenues generated by the Company's North American operations were from clients located in the United States, compared with 69% in 2001. Sourcing arrangements in foreign currencies, primarily U.S. dollars, for raw materials and certain capital expenditures with suppliers outside Canada act as a natural hedge to partially offset revenues received in U.S. dollars. The Company employs hedging programs, primarily through the use of foreign exchange forward contracts, in an effort to manage its foreign exchange exposure, which arises when the provision of services has been committed and the selling price has been quoted in foreign currencies.

In 2002, 44% of the Company's revenues were generated by our European operations, compared with 49% in 2001. European currencies on average strengthened slightly through the first half, then more considerably in the third and fourth quarters, compared with the same periods last year. The impact on reported revenues is an increase of approximately $10.2 million over the same period last year, the majority occurring in the third and fourth quarters. Had exchange rates remained constant, the increase in revenues for Europe would have been slightly higher than 9% and earnings per share would have been reduced by 1.8 cents, substantially all occurring in the third and fourth quarters. Significant long-term fluctuations in relative currency values of the Canadian dollar, euro or the British pound could affect the Company's results of operations.

As a matter of policy, the Company does not hedge to protect the translated results of its foreign operations. A portion of foreign-denominated cash inflows are naturally hedged by outflows in the same currencies for materials and additions to capital assets, as well as payments to service the foreign-denominated debt. Net cash foreign-denominated inflows or outflows are hedged as appropriate to manage risk associated with changes in foreign exchange rates. The Company has controls in place to monitor its foreign exchange exposure.

Interest Rates

The Company's current credit arrangements with its Canadian bankers for operations of Patheon Inc. and two of its wholly owned Canadian subsidiaries – Patheon YM Inc. and Patheon Whitby Inc. – include a floating interest rate related to the Canadian prime rate. Under these facilities, the Company has available $83 million, comprising $31 million in operating facilities and $52 million in long-term facilities. At October 31, 2002, $13.7 million was outstanding on the operating facilities and $10.1 million was outstanding on the long-term facilities. During the 2002 fiscal year, the prime interest rate in Canada ranged from 3.75% to 4.50% and was 4.50% at the end of the fiscal year.

During 2002, the Company's Italian subsidiary negotiated a term loan with its Italian bankers of euros 15 million (C$23.1 million), which had been fully drawn by the end of the fiscal year. The loan bears interest at Euribor (three months) plus 1.1% and is described more fully above under the heading Interest-Bearing and Long-Term Debt. During the 2002 fiscal year, the Euribor (three months) rate ranged from 3.26% to 3.60% and was 3.26% at the end of the fiscal year.

The Company's Italian subsidiary has a line of credit, which bears interest at Euribor, as well as a mortgage of euros 3.3 million (C$5.1 million) with a floating interest charge of Euribor plus 0.7% and a mortgage of euros 12.1 million (C$18.7 million) with a fixed interest rate of 4.68%. All of the Italian loans, with the exception of the line of credit, are without recourse to the Company.

The Company's UK subsidiary has lines of credit with its UK bankers providing for maximum facilities of £6 million (C$14.6 million). The operating line of credit bears interest at base rate plus 1% and the long-term lines bear interest at base rate plus 0.9%. During the 2002 fiscal year, the base rate ranged from 4.00% to 4.50% and was 4.00% at the end of the fiscal year.

EVENTS SUBSEQUENT TO THE YEAR END

Effective October 16, 2002, Patheon Inc. entered into agreements with Aventis Pharmaceuticals Inc. ("Aventis") to provide long-term manufacturing and supply services to Aventis and to purchase Aventis' pharmaceutical manufacturing and development site located in Cincinnati, Ohio, U.S.A. Under the agreements, Patheon will provide employment to all 530 employees at the site, and continue to manufacture and supply all the Aventis products currently produced at the plant. Patheon will also take over Aventis' responsibilities under existing service contracts with third-party pharmaceutical companies. The transaction was completed on December 31, 2002.

The purchase price for the facility was US$16.0 million (C$25.0 million at October 31, 2002), subject to adjustments. Patheon financed the closing requirements of US$16.0 million through existing debt facilities with its North American bankers in U.S. dollars. The Company will negotiate new lending arrangements for the ongoing financial requirements of the Cincinnati site, a portion of which may be secured through long-term, fixed interest-rate loans from the State of Ohio. In addition, inventory of approximately US$13.8 million (C$21.5 million) will be acquired following closing, which will be financed by a new operating facility.

OUTLOOKS AND MARKETS

Based on the order book at the end of the 2002 fiscal year, revenues in the first quarter of 2003 are expected to be approximately $114 million, a 22% increase in revenues over the first quarter of last year and slightly higher than the fourth quarter of 2002.

The Company expects revenues from the Cincinnati site of approximately US$95 million on an annual basis and results of operations that would be accretive to consolidated earnings in the 2003 fiscal year. With the completion of the Cincinnati transaction at the end of December 2002, consolidated revenues for the 2003 fiscal year are expected to approach C$600 million.

The Company continues to execute its strategy to be the leading outsourcing manufacturing partner to the innovators of the global pharmaceutical industry. At the end of 2002, the pharmaceutical development services group was working on 62 projects for clients. Of these projects, 15 were in Phase III clinical trials and 5 were at NDA (New Drug Approval) submission stage. This compares with 54 projects at the end of the third quarter and 40 projects at the end of the 2001 fiscal year.

Patheon's strategy is to serve the industry innovators – those companies discovering and bringing new drugs to market. In order to meet the needs of the innovators, the Company will continue to expand its PDS services and commercial manufacturing operations. The Company will continue to investigate the acquisition of additional high-quality manufacturing sites in both the United States and Europe to build on its existing high-quality manufacturing network.

FORWARD-LOOKING INFORMATION

Certain statements in this report may constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors, which may cause actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

(in thousands of Canadian dollars, except share information, per-share amounts and percentages)	2002 $	2001 $	2000 $	1999 $	1998 $
Revenues and net earnings					
Revenues	418,129	319,877	256,309	127,395	70,473
EBITDA [1]	56,774	41,433	34,150	20,011	10,370
(% of revenues)	13.6%	13.0%	13.3%	15.7%	14.7%
Depreciation and amortization	16,268	12,685	8,825	5,383	2,297
Interest	3,140	3,009	4,190	2,072	1,561
Provision for income taxes	9,160	9,418	7,584	5,045	2,530
Net earnings before unusual item	28,206	16,321	13,551	7,357	3,982
(% of revenues)	6.7%	5.1%	5.3%	5.8%	5.7%
Write-off of after-tax costs of discontinued acquisition	–	–	–	(402)	–
Net earnings	28,206	16,321	13,551	6,955	3,982
(% of revenues)	6.7%	5.1%	5.3%	5.5%	5.7%
Earnings per share					
Basic	0.56	0.34	0.31	0.18	0.12
Diluted	0.54	0.33	0.30	0.17	0.12
Number of shares					
Outstanding at October 31	50,913	50,296	46,121	43,067	34,413
Weighted average for the year	50,727	47,924	43,438	40,382	34,409
Financial position					
Current assets	138,065	114,039	81,740	62,674	24,022
Current liabilities	125,839	102,236	75,912	43,727	21,235
Working capital	12,226	11,803	5,828	18,947	2,787
Total assets	445,571	353,174	243,242	160,364	64,121
Interest-bearing debt	84,261	51,422	46,660	39,719	22,970
Shareholders' equity	233,901	198,296	124,431	79,223	26,865
Return on shareholders' equity [4]	13.1%	10.4%	15.8%	13.9%	16.2%
Interest-bearing debt to shareholders' equity	36.0%	25.9%	37.5%	50.1%	85.5%
Interest-bearing debt to total capitalization [5]	26.5%	20.6%	27.3%	33.4%	46.1%
Cash flow					
Cash provided from operations [2]	49,113	33,068	25,005	11,734	6,485
Cash provided by operating activities	37,958	24,774	11,648	10,815	4,479
Additions to capital assets					
– sustaining	9,331	16,056	11,918	5,480	– [3]
– project-related	55,141	26,452	16,877	12,921	– [3]
Total additions to capital assets	64,472	42,508	28,795	18,401	7,653
Acquisitions	–	34,900	49,271	13,000	–
Net proceeds from equity issues	–	53,915	37,125	45,472	–
Cash provided from operations per share [2]	0.97	0.69	0.58	0.29	0.19

(1) Earnings before interest, taxes, depreciation and amortization and unusual item
(2) Cash flow from operations before net change in non-cash working capital balances related to operations
(3) Data unavailable for this period
(4) Ratio of net earnings to average shareholders' equity during the fiscal year, adjusted for the effect of share proceeds received during the year
(5) Total capitalization is the sum of interest-bearing debt and shareholders' equity.

(in thousands of Canadian dollars, except per-share amounts)		Q1 $	Q2 $	Q3 $	Q4 $	Year $
Revenues	FY98	12,715	18,302	17,816	21,640	70,473
	FY99	21,461	34,650	35,228	36,056	127,395
	FY00	50,366	67,886	65,173	72,884	256,309
	FY01	64,216	70,347	86,581	98,733	319,877
	FY02	**93,625**	**103,228**	**108,742**	**112,534**	**418,129**
Earnings before interest, taxes, depreciation and amortization and unusual item (EBITDA)	FY98	1,523	2,755	2,356	3,736	10,370
	FY99	3,011	5,477	5,471	6,052	20,011
	FY00	5,811	8,223	8,715	11,401	34,150
	FY01	7,861	9,828	9,835	13,909	41,433
	FY02	**10,910**	**12,788**	**16,226**	**16,850**	**56,774**
Earnings before unusual item	FY98	487	1,120	878	1,497	3,982
	FY99	1,024	1,847	2,112	2,374	7,357
	FY00	1,783	3,226	3,229	5,313	13,551
	FY01	2,982	3,860	3,635	5,844	16,321
	FY02	**4,428**	**6,083**	**8,442**	**9,253**	**28,206**
Net earnings	FY98	487	1,120	878	1,497	3,982
	FY99	1,024	1,847	1,710 [2]	2,374	6,955
	FY00	1,783	3,226	3,229	5,313	13,551
	FY01	2,982	3,860	3,635	5,844	16,321
	FY02	**4,428**	**6,083**	**8,442**	**9,253**	**28,206**
Basic EPS (cents) before unusual item	FY98	1.4	3.3	2.5	4.4	11.6
	FY99 [1]	2.6	4.6	5.1	5.9	18.2
	FY00 [3]	4.1	7.5	7.5	12.1	31.2
	FY01 [4]	6.4	8.3	7.6	11.8	34.1
	FY02	**8.8**	**12.0**	**16.6**	**18.2**	**55.6**
Basic EPS (cents)	FY98	1.4	3.3	2.5	4.4	11.6
	FY99 [1]	2.6	4.6	4.1 [2]	5.9	17.2
	FY00 [3]	4.1	7.5	7.5	12.1	31.2
	FY01 [4]	6.4	8.3	7.6	11.8	34.1
	FY02	**8.8**	**12.0**	**16.6**	**18.2**	**55.6**

(1) FY99 shares outstanding increased 25% as a result of equity offerings in December 1998 and July 1999.
(2) Includes write-off of after-tax costs of discontinued acquisition of $402,000 ($0.01 per share).
(3) FY00 shares outstanding increased 7% as a result of an equity offering in October 2000.
(4) FY01 shares outstanding increased 9% as a result of an equity offering in June 2001.

Auditors' Report

To the Shareholders of Patheon Inc.

We have audited the consolidated balance sheets of Patheon Inc. as at October 31, 2002 and 2001 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
December 17, 2002

Chartered Accountants

Report of Management's Accountability

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Management is responsible for ensuring that these statements, which include amounts based upon estimates and judgment, are consistent with other information and operating data contained in the annual report and reflect the Company's business transactions and financial position.

The integrity and reliability of Patheon's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and appropriate delegation of authority and division of responsibilities. Patheon's code of business conduct requires employees to maintain high standards in their conduct of the Company's affairs.

Our shareholders' independent auditors, Ernst & Young LLP, whose report on their examination is above, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards.

The Board of Directors annually appoints an Audit Committee comprised of Directors who are not employees of the Company. This Committee meets, at least quarterly, with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings. Following its review of the financial statements and the report of the shareholders' auditors, the Audit Committee submits its report to the Board of Directors for formal approval of the financial statements.

R. Tedford

Robert C. Tedford
Chief Executive Officer

R. B. Mitchell

Ronald B. Mitchell
Chief Financial Officer

Toronto, Canada
December 18, 2002

As at October 31 (in thousands of Canadian dollars)	2002 $	2001 $
ASSETS		
Current		
Cash and cash equivalents *(note 4)*	9,168	10,916
Accounts receivable	76,785	65,563
Inventories *(note 5)*	52,112	37,560
Total current assets	138,065	114,039
Capital assets, net *(note 6)*	281,048	221,680
Future tax assets *(note 12)*	11,589	7,754
Goodwill *(note 2)*	3,456	3,456
Deferred pre-operating costs *(note 9)*	9,536	4,368
Investment	1,877	1,877
	445,571	353,174
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	23,739	23,590
Accounts payable and accrued liabilities	83,836	70,214
Income taxes payable	2,904	2,286
Current portion of long-term debt *(note 7)*	15,360	6,146
Total current liabilities	125,839	102,236
Long-term debt *(note 7)*	44,830	21,234
Other long-term liabilities *(note 8)*	22,385	19,196
Future tax liabilities *(note 12)*	18,616	12,212
Total liabilities	211,670	154,878
Shareholders' equity		
Share capital *(note 10)*	155,972	154,830
Retained earnings	73,916	45,710
Cumulative translation adjustment *(note 9)*	4,013	(2,244)
Total shareholders' equity	233,901	198,296
	445,571	353,174

See accompanying notes

On behalf of the Board:

Peter A. W. Green
Director

Robert C. Tedford
Director

Consolidated Statements of Earnings

Years ended October 31 (in thousands of Canadian dollars except earnings per share)	2002 $	2001 $
Revenues	418,129	319,877
Operating expenses	361,355	278,444
Earnings before depreciation and amortization, interest and income taxes	56,774	41,433
Depreciation and amortization	16,268	12,685
Interest	3,140	3,009
Earnings before income taxes	37,366	25,739
Provision for income taxes *(note 12)*		
Current	6,654	5,024
Future	2,506	4,394
	9,160	9,418
Net earnings for the year	28,206	16,321
Earnings per share *(note 9)*		
Basic	$0.56	$0.34
Diluted	$0.54	$0.33

Consolidated Statements of Retained Earnings

Years ended October 31 (in thousands of Canadian dollars)	2002 $	2001 $
Retained earnings, beginning of year	45,710	29,389
Net earnings for the year	28,206	16,321
Retained earnings, end of year	73,916	45,710

See accompanying notes

Years ended October 31 (in thousands of Canadian dollars)	2002 $	2001 $
OPERATING ACTIVITIES		
Net earnings for the year	28,206	16,321
Add (deduct) charges to operations not requiring a current cash payment		
Depreciation and amortization	16,268	12,685
Employee future benefits	2,133	(332)
Future income taxes	2,506	4,394
Cash provided from operations	49,113	33,068
Net change in non-cash working capital balances related to operations	(11,155)	(8,294)
Cash provided by operating activities	37,958	24,774
INVESTING ACTIVITIES		
Acquisition of new manufacturing site *(note 3)*		
Capital and other assets acquired	–	(37,100)
Liabilities assumed	–	2,200
Cash consideration	–	(34,900)
Additions to capital assets		
Sustaining	(9,331)	(16,056)
Project-related	(55,141)	(26,452)
Total additions to capital assets	(64,472)	(42,508)
Increase in investment	–	(617)
Increase in deferred pre-operating costs	(6,176)	(4,368)
Cash used in investing activities	(70,648)	(82,393)
FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	(351)	10,244
Increase in term loans	36,580	44,636
Repayment of long-term debt and other long-term liabilities	(5,840)	(57,169)
Issue of common shares	1,142	54,093
Cash provided by financing activities	31,531	51,804
Effect of exchange rate changes on cash and cash equivalents	(589)	3,495
Net decrease in cash and cash equivalents during the year	(1,748)	(2,320)
Cash and cash equivalents, beginning of year	10,916	13,236
Cash and cash equivalents, end of year	9,168	10,916
Supplemental cash flow information		
Interest paid	3,385	3,417
Income taxes paid	9,964	3,455

See accompanying notes

October 31, 2002 and 2001
(Dollar information in tabular form is expressed in thousands of Canadian dollars.)

1 Basis of presentation and summary of significant accounting policies

Patheon Inc. ("Patheon" or the "Company") is a Canadian public company, which trades under the symbol PTI on The Toronto Stock Exchange. The Company is an independent provider of commercial manufacturing and development services of prescription ("Rx") and over-the-counter ("OTC") drugs to the international pharmaceutical industry.

Patheon's commercial manufacturing activities relate primarily to Rx and OTC products in solid, semi-solid, liquid and sterile dosage forms. The Company manufactures, to client specifications, a wide variety of products in many packaging formats. The Company can be responsible for each aspect of the manufacturing and packaging process, from sourcing raw materials and packaging components to delivering the finished product in consumer-ready form to the client's distribution facilities.

Patheon's pharmaceutical development services include dosage form development, analytical methods development, pilot batch manufacture of new products for the regulatory drug approval process and the provision of scale-up services designed to show that a drug can be manufactured in commercial volumes.

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed by the Company are summarized as follows:

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated.

Revenue recognition

The Company recognizes revenue when services are completed in accordance with the specific terms of contractual arrangements with its clients and all costs connected in providing these services have been incurred.

Foreign exchange translation

Monetary assets and liabilities of the Company denominated in foreign currencies are translated at the year-end exchange rates. Exchange gains and losses on revenues and expenses are recognized in earnings in the current period.

The Company's operations outside of Canada are considered self-sustaining and accordingly their accounts are translated to Canadian dollars using the year-end exchange rates and revenues and expenses are translated at average rates during the year. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred as a separate component of shareholders' equity.

The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in earnings when there is a reduction in the Company's net investment in the operations that gave rise to such exchange gains and losses.

Cash and cash equivalents

Cash and cash equivalents include cash in interest-bearing accounts and term deposits with remaining maturities of less than three months at the date the term deposit was acquired.

Inventories

Inventories consisting of raw materials, packaging components and work-in-process are valued at the lower of weighted average cost and net realizable value.

Capital assets

Capital assets are carried at cost less accumulated depreciation. The cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in earnings.

Depreciation is provided on the straight-line basis based on estimated useful lives as follows:

Buildings	40 - 50 years
Machinery and equipment	5 - 15 years
Office equipment	4 - 10 years
Furniture and fixtures	10 years

Repairs and maintenance costs are charged to operations as incurred.

In the consolidated statements of cash flows, additions to capital assets are classified as either project-related (additions related to revenue growth) or sustaining (additions related to the preservation of existing assets and capacity).

1 Basis of presentation and summary of significant accounting policies (continued)

Deferred pre-operating costs

During the development and pre-operating phases of new businesses or facilities, incremental costs are deferred. Once commercial operations have commenced, the costs are amortized on a straight-line basis over five years.

Goodwill

Goodwill represents the excess of the purchase price of the Company's interest in subsidiary companies over the fair value of the underlying net identifiable assets arising on acquisitions. For goodwill recognized prior to November 1, 2001, amortization was calculated using the straight-line method over 20 years. Effective November 1, 2001, goodwill is no longer subject to amortization but is subject to an annual review for impairment, or more frequently if events or changes in circumstances indicate that goodwill is impaired, which consists of a comparison of the fair value of the assets to their carrying value. For further details, including the financial impact of this change, see note 2.

Investment

The investment in the shares of a drug technology company is accounted for on the cost basis whereby the Company records, as earnings, its share of dividends as declared net of any impairment allowance. On an ongoing basis, management reviews the valuation of the investment, taking into consideration any events or circumstances which might have impaired its carrying value.

Employee benefit plans

The cost of pension and post-employment benefits related to employees' current service is charged to earnings annually. The cost is computed on an actuarial basis using the projected benefit method prorated on service and management's best estimates of investment yields, salary escalation and other factors. Pension plan assets are valued at fair value for purposes of calculating the expected return on plan assets. Past service costs resulting from plan amendments are amortized over the remaining service life of active employees. The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service period of active employees.

Unfunded termination benefits for the Company's Italian employees are accrued based on Italian severance pay statutes. The liability recorded on the consolidated balance sheet is the amount to which the employees would be entitled if the employees separate immediately.

Income taxes

The Company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Share-based compensation plan

The Company has an incentive stock option plan as more fully described in note 10. No compensation expense is recognized for this plan when stock or stock options are issued. Any consideration paid on the exercise of stock options is credited to share capital.

Earnings per share

The calculation of earnings per common share is based on the reported net earnings divided by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the assumed conversion of all diluted securities using the treasury stock method.

Government financing

The Company makes periodic applications for financial assistance under available government assistance programs in the various jurisdictions in which the Company operates. Grants relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are generally recorded as a reduction of expense at the time the eligible expenses are incurred. In the case of certain foreign subsidiaries, the Company receives investment incentive allowances, which are accounted for as a reduction of income tax expense.

Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates that affect the amounts reported and disclosed in the consolidated financial statements. Actual results could differ from those estimates.

2 Accounting change

Goodwill

Effective November 1, 2001, the Company has adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for goodwill and other intangible assets. Under the new accounting standard, which can only be applied prospectively, goodwill and other intangible assets with indefinite lives are no longer amortized, but are tested for impairment upon adoption of the new standard and at least annually thereafter. The Company has carried out a test for impairment of goodwill for the 2002 fiscal year and has determined that no write-down of goodwill is warranted.

The following shows the impact of this change on the net earnings and earnings per share for the current year, and the impact had this change been applied in fiscal 2001:

	2002	2001
	$	$
Increase in net earnings	120	120
Increase in earnings per share	0.2¢	0.2¢

3 Acquisition of new manufacturing site

On April 30, 2001, the Company acquired a pharmaceutical manufacturing facility located in Whitby, Canada for total cash consideration of $34,900,000, including related acquisition costs.

The acquisition has been accounted for using the purchase method and the accompanying consolidated financial statements include the results of operations from the date of purchase.

The purchase price was allocated in the accounts based on the estimated fair value of the assets acquired less liabilities assumed as follows:

	2001
	$
Capital assets acquired	29,900
Inventory acquired	7,200
	37,100
Other long-term liabilities assumed	(2,200)
Cash consideration for net assets acquired	34,900

4 Cash and cash equivalents

	2002	2001
	$	$
Interest-bearing balances with banks	5,537	1,758
Term deposits	3,631	9,158
	9,168	10,916

5 Inventories

	2002 $	2001 $
Raw materials and packaging	34,683	24,284
Work-in-process	17,429	13,276
	52,112	37,560

6 Capital assets

	Cost $	Accumulated depreciation $	2002 Net book value $	2001 Net book value $
Land	20,033	–	20,033	18,732
Buildings	103,773	11,622	92,151	83,368
Machinery and equipment	140,606	38,831	101,775	87,371
Office equipment	11,300	6,633	4,667	4,263
Furniture and fixtures	8,270	5,265	3,005	1,902
Construction in progress	59,417	–	59,417	26,044
	343,399	62,351	281,048	221,680

Capital commitments to complete authorized capital projects were $12,672,000. The majority of these expenditures are expected to be incurred during the year ending October 31, 2003.

In February 2002, the Company continued the expansion of its European lyophilisation capabilities by acquiring a 144,000 square-foot sterile manufacturing facility in Ferentino, (near Rome), Italy.

7 Long-term debt

	2002 $	2001 $
Term loans bearing interest at prime plus 1/2 %	10,100	–
Subordinated mortgage, bearing interest at prime	–	1,500
Term loan bearing interest at UK base rate plus 0.9% (£1,240,000)	3,025	–
Other	145	298
	13,270	1,798
Debt of subsidiaries without recourse to the Company		
Mortgage, bearing interest at Euribor plus 1.1% (euros 15,000,000)	23,130	–
Mortgage, bearing interest at 4.68% per annum (euros 12,141,000)	18,721	19,552
Mortgage, bearing interest at Euribor plus 0.7% (euros 3,286,000)	5,069	6,030
	46,920	25,582
	60,190	27,380
Less current portion	15,360	6,146
	44,830	21,234

7 Long-term debt (continued)

The Company has a line of credit with its Canadian bankers of $30,000,000. The operating line portion, with interest at prime, may not exceed the lesser of $15,000,000 and the total of an allowable portion of accounts receivable and inventory. The demand revolving loan portion, which is not to exceed $15,000,000, bears interest at the minimum rate of prime plus 1/2% or the maximum rate of prime plus 1%. The line of credit is collateralized by a general security agreement and fixed and floating charge debentures covering all of the Company's Canadian assets, other than the shares of its wholly-owned subsidiaries, Patheon YM Inc. and Patheon Whitby Inc. As at October 31, 2002, the line of credit utilized by the Company amounted to $11,830,000 (2001 – $12,365,000).

Patheon YM Inc., a wholly-owned subsidiary of the Company, has a line of credit with its Canadian bankers of $13,000,000. The operating line portion, with interest at prime, may not exceed the lesser of $6,000,000 and the total of an allowable portion of accounts receivable and inventory. The demand reducing loan portion, which is not to exceed $7,000,000, bears interest at prime plus 1/2%. The line of credit is collateralized by general security agreements and fixed and floating charge debentures covering the assets of the borrower, a pledge of shares of the borrower and guarantees by the Company and certain of its subsidiaries. As at October 31, 2002, the line of credit utilized by Patheon YM Inc. amounted to $1,898,000 (2001 – $1,938,000).

Patheon Whitby Inc., a wholly-owned subsidiary of the Company, has a line of credit with its Canadian bankers of $40,000,000. The operating line portion, with interest at prime, may not exceed the lesser of $10,000,000 and the total of an allowable portion of accounts receivable and inventory. The demand reducing loan portion, which is not to exceed $30,000,000, bears interest at rates of prime plus 1/2% to prime plus 3/4%. The line of credit is collateralized by general security agreements and fixed and floating charge debentures covering the assets of the borrower, a pledge of shares of the borrower and guarantees by the Company and certain of its subsidiaries.

The Company's UK subsidiary has an operating line of credit with its UK bankers of £4,000,000 (C$9,757,000). The line of credit, with interest at base rate plus 1%, may not exceed the lesser of £4,000,000 (C$9,757,000) and an allowable portion of accounts receivable. The line of credit is collateralized by general security agreements and fixed and floating charge debentures covering the assets of the borrower, a pledge of shares of the borrower and guarantees by the Company and certain of its subsidiaries. As at October 31, 2002, the line of credit utilized by the Company amounted to £3,994,000 (C$9,743,000).

The Company's UK subsidiary also has an asset finance line of credit with its UK bankers of £3,000,000 (C$7,318,000) with interest at base rate plus 0.9% and collateralized by a chattels mortgage on specific assets acquired and fixed and floating charge debentures covering the assets of the borrower. Amounts drawn are repayable in equal monthly installments over a period of 36 months. The aggregate amount outstanding under the operating line of credit and the asset finance line of credit is limited to £6,000,000 (C$14,636,000).

The Company's Italian subsidiary has lines of credit with its European banker of euros 1,032,000 (C$1,591,000), which, if drawn, would bear interest at a rate of 8% to 8.25%. The Company also has a line to discount invoices of euros 2,582,000 (C$3,981,000) which, if drawn, would bear interest at 5.25%.

In June 2002, Patheon Italia S.p.A. completed a new financing agreement with its principal banker. The agreement provides long-term facilities in the amount of euros 15,000,000 (C$23,130,000), all of which was drawn at October 31, 2002. No principal payments are required until June 30, 2004 at which time equal, semi-annual principal payments commence and continue through December 31, 2011. The mortgage bears interest at Euribor plus 1.1%. The facilities are secured by mortgages on the Monza, Italy and Ferentino, Italy properties and are non-recourse to the Company.

The mortgage bearing interest at 4.68%, assumed on the acquisition of Patheon Italia S.p.A., is non-recourse to the Company and is collateralized by a first mortgage on one of the Italian subsidiary's buildings. The mortgage is repayable in equal semi-annual amounts until December 31, 2008.

The mortgage bearing interest at Euribor plus 0.7%, assumed on the acquisition of Patheon Italia S.p.A., is also non-recourse to the Company and is collateralized by a second mortgage on the Italian subsidiary's building. Principal repayments commenced on March 31, 2001 and are payable in equal semi-annual amounts until March 31, 2006.

The estimated minimum annual repayment schedule for long-term debt based on current exchange rates for the next five fiscal years is: 2003 – $15,360,000; 2004 – $6,688,000; 2005 – $7,708,000; 2006 – $6,460,000; 2007 – $5,903,000.

Interest on long-term debt amounted to $1,707,000 (2001 – $2,140,000) for the year.

8 Other long-term liabilities

	2002 $	2001 $
Unfunded termination indemnities (euros 4,600,000)	7,089	5,594
Employee future benefits *(note 13)*	15,084	13,270
Preferred shares *(note 10)*	332	452
	22,505	19,316
Less current portion included in accounts payable and accrued liabilities	120	120
	22,385	19,196

The unfunded termination indemnities relate to the employees of the Company's Italian subsidiary. In accordance with Italian severance pay statutes, an employee benefit is accrued for service to date and is payable immediately upon separation from employment. The termination indemnity liability is calculated in accordance with local civil and labour laws based on each employee's length of service, employment category and remuneration. The termination liability is adjusted annually by a cost-of-living index provided by the Italian Government. There is no vesting period or funding requirement associated with the liability. The liability recorded in the consolidated balance sheet is the amount to which the employees would be entitled if the employees separate immediately. The expense for the year amounted to $960,000 (2001 – $854,000).

9 Other information

Cumulative translation adjustment

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Company's self-sustaining foreign operations, resulted in an unrealized currency translation gain of $6,257,000 for the year ended October 31, 2002. The unrealized gain resulted primarily from the strengthening of the euro and the British pound against the Canadian dollar.

Earnings per share

The following is a reconciliation of the numerator and denominator of earnings per share computations:

	2002 $	2001 $
Net earnings for the year	28,206	16,321
Weighted average shares outstanding (numbers in thousands)	50,727	47,924
Effect of dilutive stock options	1,130	1,650
Diluted weighted average shares outstanding	51,857	49,574
Earnings per share		
Basic	$0.56	$0.34
Diluted	$0.54	$0.33

Options to purchase 874,412 and 706,466 common shares for the years ended October 31, 2002 and 2001, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

Deferred pre-operating costs

Deferred pre-operating costs consist of:

	2002 $	2001 $
Start up costs	11,185	4,368
Accumulated amortization	(1,649)	–
Net book value	9,536	4,368

10 Shareholders' equity

Share capital

Share capital consists of the following:

	2002 $	2001 $
Authorized		
Unlimited Class I preferred shares issuable in series, eligible for a cumulative cash dividend of $6.00 per share payable annually in arrears. Redeemable at the option of the Company for $100 with 1,331 shares being required to be redeemed annually		
Unlimited common shares		
Issued and outstanding		
3,691 Class I preferred shares, Series A (2001 – 5,022)	332	452
50,913,022 common shares (2001 – 50,295,925)	155,972	154,830

Preferred shares

Due to their mandatory redemption provisions, the Company's preferred shares are classified as other long-term liabilities and associated dividends paid are reflected as interest expense. During each of 2002 and 2001, the Company redeemed 1,331 of its preferred shares at $100 per share.

Shares issued

During the year, the Company issued 617,097 (2001 – 362,733) common shares under the incentive stock option plan for proceeds of $1,142,000 (2001– $178,000).

During fiscal 2001, the Company completed a public offering and issued 3,400,000 common shares for net after tax proceeds of $48,333,000. Also in fiscal 2001, the underwriters of the public offering in October 2000 exercised their over-allotment option and purchased an additional 412,500 common shares for net after tax proceeds of $5,582,000.

Incentive stock option plan

The Company has an incentive stock option plan, which provides for the granting of options for the benefit of employees, officers and directors. The total number of Company shares that may be issued under this plan is 6,422,923. The exercise price per share will be the market price at the time of granting and the maximum term is 10 years. Options generally vest equally after the end of the first, second and third year of grant; however, under certain circumstances, options vest immediately.

A summary of the plan and changes during each of 2002 and 2001 are as follows:

	2002		2001	
	Shares #	Weighted average exercise price $	Shares #	Weighted average exercise price $
Outstanding, beginning of year	3,195,999	6.73	2,836,368	3.78
Granted	488,150	12.28	754,800	15.10
Exercised/forfeited	(667,038)	2.68	(395,169)	1.56
Outstanding, end of year	3,017,111	8.53	3,195,999	6.73
Options exercisable at year end	2,223,249	6.94	2,104,614	3.80

10 Shareholders' equity (continued)

The following table summarizes information about options outstanding at October 31, 2002:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$0.60 – 1.47	639,000	3.5 years	$1.16	639,000	$1.16
$2.40 – 3.53	368,000	5.2 years	$3.33	368,000	$3.33
$8.15 – 9.91	720,598	7.0 years	$8.40	669,988	$8.36
$10.91 – 13.95	637,950	8.6 years	$12.11	134,699	$11.33
$14.01 – 15.80	651,563	8.0 years	$15.32	411,562	$15.38

11 Shareholder rights plan

On March 20, 2002, the shareholders approved renewal of an amended and restated shareholder rights plan (the "Renewal Plan") and continuation of the rights granted under a shareholder rights plan approved by shareholders on March 23, 1999. The Renewal Plan applies to all common shares and all future issues of common shares. The Renewal Plan is designed to encourage fair treatment of all the Company's shareholders in the event of a take-over bid, to provide shareholders and the Board of Directors with more time to fully consider any unsolicited take-over bid for the Company, to allow the Board of Directors to pursue, if appropriate, other alternatives to enhance shareholder value, and to allow additional time for competing bids to emerge. The Renewal Plan will be in effect until the close of the 2005 annual shareholders' meeting of the Company.

Under the terms of the Renewal Plan, one right has been granted for each common share. Each right entitles the registered holder to purchase an additional common share for $50 but is not exercisable until certain events occur. The rights issued under the Renewal Plan become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20% or more of the Company's outstanding common shares without complying with the "Permitted Bid" provisions or without approval of the Board of Directors. Should such an acquisition occur, each right would entitle a holder, other than the acquiring person and persons related to it, to purchase common shares of the Company at a 50% discount to the market price.

A Permitted Bid is a bid made to all shareholders that is open for at least 60 days. If at the end of 60 days at least 50% of the outstanding shares, other than those owned by the offeror and certain related parties, have been tendered, then the offeror may take up and pay for the shares but must extend the bid for a further 10 business days to allow other shareholders to tender.

12 Income taxes

The following is a reconciliation of the expected income tax expense obtained by applying the combined corporate tax rates to income before income taxes:

	2002 $	2001 $
Expected income tax expense using statutory tax rates	12,440	8,805
Permanent differences and other		
Foreign	131	421
Domestic	121	326
Foreign rate differentials	71	(134)
Benefit resulting from Italian investment tax deductions	(3,603)	–
Provision for income taxes	9,160	9,418
Effective tax rate	24.5%	36.6%

12 Income taxes (continued)

Components of future income taxes by jurisdiction are summarized as follows:

	2002 $	2001 $
Canada		
Future income tax assets – long-term		
Share issue costs	886	1,386
Accounting provisions not currently deductible for tax purposes	1,430	591
	2,316	1,977
Future income tax liabilities – long-term		
Tax depreciation in excess of book depreciation	8,872	6,597
Other	452	111
	9,324	6,708
Foreign		
Future income tax assets – long-term		
Accounting provisions not currently deductible for tax purposes	5,171	5,041
Other	4,102	736
	9,273	5,777
Future income tax liabilities – long-term		
Tax depreciation in excess of book depreciation	9,083	5,311
Other	209	193
	9,292	5,504

In 2001, an Italian investment tax incentive law was enacted in order to encourage capital investments and other expenditures in Italy. Companies are able to reduce their taxable income by up to 50% of the excess of new qualifying capital and other expenditures made in the second half of 2001 and in the year 2002 in capital assets (tangibles and specified intangibles) over the average of the investments made in such assets during the five prior years. The incentive law also applies to certain expenses incurred in connection with the training of companies' personnel. The incentive results in a deduction and neither increases nor decreases the tax bases of the assets to compute future tax deductions for depreciation and amortization relating to investment deductions granted. As a result, in 2002 the Company recognized a benefit from the investment deductions of $3,603,000.

13 Employee future benefits

The Company has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to substantially all of its employees. The cost of providing benefits through defined benefit pensions, lump sum terminations and post retirement benefits other than pensions is actuarially determined and recognized in income using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and other factors. Plan assets are valued at market value. The cost of providing benefits through these plans is charged to income in the period in which the benefit is earned by the employees.

13 Employee future benefits (continued)

Information about the Company's defined benefit plans, in aggregate, is as follows:

	Pension 2002 $	Other benefit plans 2002 $
Change in benefit obligation		
Benefit obligation, beginning of year	63,878	3,990
Current service cost	3,771	526
Interest cost	4,169	281
Benefits paid	(2,160)	(22)
Actuarial loss	–	317
Currency translation	6,328	–
Actuarial obligation, end of year	75,986	5,092
Change in plan assets		
Market value of plan assets, beginning of year	50,041	–
Actual return of plan assets	1,444	–
Member contributions during the year	698	–
Employer contributions	3,111	22
Benefits paid	(2,160)	(22)
Currency translation	4,273	–
Market value of plan assets, end of year	57,407	–
Reconciliation of funded status		
Funded status, deficit	(18,579)	(5,092)
Contributions after measurement date	698	–
Unamortized net actuarial loss	7,355	534
Accrued benefit liability	(10,526)	(4,558)

The accrued benefit liability is less than the funded deficit of the plans since actuarial losses are not required to be recognized in the accounts immediately. The accrued benefit liabilities are included in other long-term liabilities (note 8).

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of October 31):

	Pension 2002 %	Other benefit plans 2002 %
Discount rate	7	7
Expected long-term rate of return on plan assets	7	–
Rate of compensation increase	4	–

For measurement purposes, a 4% to 11% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2002. The rate was assumed to decrease gradually over the next six years to 6% and remain at that level thereafter.

The Company's net benefit plan expense is as follows:

	Pension 2002 $	Other benefit plans 2002 $
Components of defined benefit plan expense		
Current service cost	3,771	526
Interest cost	4,169	281
Expected return on plan assets (income)	(3,845)	–
Net expense	4,095	807

Effective May 1999, the Company has provided retirement benefits for the majority of its Canadian employees under a defined contribution plan. The total expense for the plan amounted to $1,600,000 (2001 – $1,168,000).

14 Segmented information

The Company is organized and managed as a single business segment, being the provider of commercial manufacturing and pharmaceutical development services (note 1).

Canadian and foreign operations consist of the following:

	2002			2001		
	Canada	Europe	Total	Canada	Europe	Total
	$	$	$	$	$	$
Revenues						
Domestic	43,162	182,873	226,035	41,922	153,721	195,643
U.S.A.	155,813	59	155,872	101,900	1,078	102,978
Other geographic areas	36,117	105	36,222	17,899	3,357	21,256
Total revenues	235,092	183,037	418,129	161,721	158,156	319,877
Capital assets	121,766	159,282	281,048	110,135	111,545	221,680
Goodwill	3,456	–	3,456	3,456	–	3,456

Revenue is attributed to countries based on the location of the client's billing address and capital assets and goodwill are based in the country in which they are located. During the years ended October 31, 2002 and 2001, three clients accounted for more than 10% of the Company's total revenues. As a percentage of total revenues, these clients amounted to 24%, 14% and 12% (2001 – 31%, 15% and 13%).

Revenue information by service activity is as follows:

	2002	2001
	$	$
Commercial manufacturing – prescription	259,453	208,547
Commercial manufacturing – over-the-counter	104,300	77,692
Development services	54,376	33,638
	418,129	319,877

15 Commitments and contingencies

Long-term lease

Patheon Inc. has entered into a long term rental agreement to lease office space in Mississauga, Canada. The future rental payments are estimated as follows: 2003 – $463,000; 2004 – $555,000; 2005 – $555,000; 2006 – $555,000; 2007 – $555,000.

16 Announcement of agreements to be entered into on December 31, 2002

Effective October 16, 2002, Patheon Inc. entered into agreements with Aventis Pharmaceuticals Inc. ("Aventis") to provide long-term manufacturing and supply services to Aventis and to purchase Aventis' pharmaceutical manufacturing and development site located in Cincinnati, Ohio, USA. Under the agreements, Patheon will offer employment to all 530 employees at the site, and continue to manufacture and supply all the Aventis products currently produced at the plant. Patheon will also take over Aventis' responsibilities under existing service contracts with existing third-party pharmaceutical companies. The transaction is expected to be completed by the end of December 2002, subject to due diligence, contractual consents, approvals from the State of Ohio and the local municipality, and certain other conditions.

The purchase price for the facility is US$16,000,000 (C$24,965,000), subject to adjustments, plus approximately US$13,800,000 (C$21,530,000) for inventory. Patheon will finance the transaction through debt facilities, a portion of which may be secured through long-term, fixed interest-rate loans from the State of Ohio.

17 Financial instruments

(a) Fair value

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described below:

Cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities

Due to the short period to maturity of these instruments, the carrying values as presented in the consolidated balance sheets are reasonable estimates of fair value.

Long-term debt

The fair value of the Company's long-term debt, based on current rates for debt with similar terms and maturities, is not materially different from its carrying value.

(b) Credit risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable.

The Company, in the normal course of business, is exposed to credit risk from its customers substantially all of which are in the pharmaceutical industry. These accounts receivable are subject to normal industry credit risks.

Cash and cash equivalents, which consist of short-term investments, including commercial paper, are only invested in entities with an investment grade credit rating. Credit risk is further reduced by limiting the amount which is invested in any one government or corporation.

(c) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities and its current levels of long-term debt balances.

18 Comparative amounts

Certain of the comparative amounts have been reclassified to conform to the current year presentation.

Board of Directors

FROM LEFT TO RIGHT:
THE HONOURABLE ROY MACLAREN, P. C., GEORGE L. PLODER, DEREK J. WATCHORN, NICK A. DIPIETRO, ROBERT C. TEDFORD, PETER A.W. GREEN, E. JAMES ARNETT, Q.C., BRYCE W. DOUGLA

Mr. Green is currently Chairman of the Board of Patheon Inc. He is also Chairman of the Board of Trustees of the Superior Propane Income Fund and a Director of Superior Propane Inc. and The Gore Mutual Insurance Company. Mr. Green has been Chairman of the Board of Patheon Inc. since 1996. He is a Chartered Accountant.

ROBERT C. TEDFORD

Mr. Tedford has been Chief Executive Officer of Patheon Inc. since 1996. He joined Patheon in 1992 as Chief Financial Officer. Mr. Tedford previously held senior management positions in one of Canada's leading international accounting firms. He is a graduate of McGill University and Harvard Business School's Advanced Management Program and is a Chartered Accountant. He has been a Director of Patheon since 1992.

NICK A. DIPIETRO

Mr. DiPietro is President and Chief Operating Officer of Patheon Inc. He joined Patheon in 1982, becoming President of the Niagara Region and Burlington operating divisions in 1989. He was appointed to his current position in 1996. Mr. DiPietro holds an Honours B.Sc. in Biochemistry and an M.B.A. from McMaster University. He has been a Director of Patheon since 1993.

E. JAMES ARNETT, C. .. [1, 3, 4]

Mr. Arnett is Counsel to the law firm Fraser Milner Casgrain LLP. He served as President and CEO of Molson Inc. from 1997 to 2000. Mr. Arnett has a B.A. and an LL.B from the University of Manitoba, and received a Master of Laws from Harvard University in 1964. Mr. Arnett is Chair of KCP Income Fund and a director of Mirabaud Asset Management (Canada) Inc., Chair of Canada's National History Society and Vice-Chair of Toronto East General Hospital. He joined Patheon's Board in March 2001.

Corporate Governance Statement

Corporate governance standards and practices received unprecedented focus this past year – particularly in the United States but also in Canada, the UK and Europe – by regulators, investors and other market participants.

During the year, we continued to conduct our business committed to the highest quality standards in our provision of manufacturing and pharmaceutical development services, to the health and safety of our employees, and to the responsible reporting of our financial results and the management of our financial affairs. Integrity, respect and excellence are the fundamental principles which guide us in our interactions with our clients, shareholders, employees, suppliers, regulators and others in the communities in which we do business.

The Board of Directors of Patheon Inc. is composed of six independent directors who are not related to the corporation, together with the Chief Executive Officer and the President and Chief Operating Officer. Since 1996, the Chairman of the Board of Directors has been a non-executive, independent director. The members of the Board of Directors have extensive and relevant experience in the management and direction of public corporations, corporate finance and corporate transactions.

The three committees of the Board of Directors (Audit Committee, Corporate Governance Committee and Compensation and Human Resources Committee) carry out their mandates carefully and responsibly. Copies of the reports of the three committees of the Board are set out in the Proxy Circular for the 2003 Annual and Special Meeting of Shareholders.

The Corporate Governance Committee has the mandate to regularly review and evaluate the Corporation's corporate governance policies and practices and to propose improvements as appropriate.

In 2002, with the recommendation of the Corporate Governance Committee, the Board of Directors approved the codification of the position responsibilities of the Chairman of the Board and the Chief Executive Officer. The Board also approved Patheon's Code of Business Conduct – a summary of the policies and practices which had been adopted by Patheon's Board of Directors and senior management over the years to govern our business conduct. In addition, the Board approved a new general by-law which, among other things, sets out procedures for the conduct of shareholder and director meetings and the delegation of certain management responsibilities. The by-law was adopted, subject to shareholder confirmation at the 2003 Annual and Special Meeting of Shareholders, to reflect recent amendments to the *Canada Business Corporations Act*.

A full report of Patheon's corporate governance practices is set out in the Proxy Circular for the 2003 Annual and Special Meeting of Shareholders.

February 7, 2003

BRYCE W. DOUGLAS[1, 2, 3, 4]
Mr. Douglas is Chairman of the Toronto General & Western Hospital Foundation, a Trustee of Legacy Hotels Real Estate Investment Trust, and a Governor of Lakefield College School. He retired on October 31, 2002 after a distinguished 39-year career with RBC Financial Group, serving latterly as Deputy Chairman of RBC Capital Markets. He joined Patheon's Board in September 2000.

THE HONOURABLE ROY MACLAREN, P.C.[1, 4]
The Honourable Roy MacLaren, P.C. is currently a director of several public companies, including Standard Life, Brascan Inc. and Canadian Tire Corporation. He previously served as the High Commissioner for Canada to the United Kingdom of Great Britain and Northern Ireland from 1996 to 2000 and was formerly Canada's Minister of International Trade. He joined Patheon's Board in January 2001.

GEORGE L. PLODER[1, 2, 4]
Mr. Ploder is a director of a number of public and private companies, including Bennett Environmental Inc., Vital Retirement Living Inc., and Unisphere Waste Conversion Ltd. He served as Chief Executive Officer and President of Bracknell Corporation from 1989 to 1999. Mr. Ploder is a Chartered Accountant and has been a Director of Patheon since 1992.

DEREK J. WATCHORN[1, 4]
Mr. Watchorn is Executive Vice-President, Strategic Initiatives, of Canary Wharf Group plc in London, England. Mr. Watchorn was a senior partner of the law firm Davies Ward Phillips & Vineberg LLP from September 2001 until January 10, 2003 and previously from 1970 to 1999. He was formerly the Executive Director of TrizecHahn Europe in London, England from 1999 to September 2001. Mr. Watchorn holds an LL.B. from the University of Toronto and has been a Director of Patheon since 1998.

1 Corporate Governance Committee 2 Audit Committee 3 Compensation and Human Resources Committee 4 Independent Director

Senior Management

"Our highly skilled employees are led by a talented team of executives who bring in-depth and extensive global management experience to Patheon."

ROBERT C. TEDFORD
CHIEF EXECUTIVE OFFICER

NICK A. DIPIETRO
PRESIDENT & CHIEF OPERATING OFFICER

ALDO BRACA
EXECUTIVE VICE-PRESIDENT, EUROPEAN BUSINESS DEVELOPMENT AND PRESIDENT, PATHEON ITALIA S.P.A.

Trained as an industrial chemist, Mr. Braca's career includes 29 years with the European operations of Bristol Myers Squibb, where he held positions of increasing responsibility. Prior to joining Patheon in 1999, Mr. Braca was President – Worldwide Manufacturing, Technical Operations, Worldwide Medicines Group, Bristol Myers Squibb, with responsibility for 32 manufacturing plants and approximately 10,000 employees. Mr. Braca is fluent in Italian and English.

CLIVE V. BENNETT
EXECUTIVE VICE-PRESIDENT, OPERATIONS

Prior to his appointment to Patheon's Management Advisory Board in January 2000, Mr. Bennett's 30-year career in the pharmaceutical industry included serving as Senior Vice-President of Operations and Head of Global Drug Product Supply with Hoechst Marion Roussel (now merged with Aventis Pharmaceuticals), where he was responsible for the company's dosage manufacturing network of 35 sites and 10,000 employees. Fluent in English, Spanish and French, Mr. Bennett served as a consultant to Patheon's European subsidiaries from July to December 2001. He was appointed Executive Vice-President, Operations in January 2002.

MICHAEL S. HARDING
SENIOR VICE-PRESIDENT
GLOBAL QUALITY OPERATIONS

Mr. Harding brings more than 20 years of pharmaceutical manufacturing experience to his position. He joined Patheon in 1979, serving in a number of positions in client service and operations before becoming Production Manager at the company's Niagara Region Operations facility in 1982. Mr. Harding subsequently held increasingly senior roles in quality affairs and in 1988 was appointed Director of Quality Assurance and Technical Affairs. He was appointed to his current position in 1998. Mr. Harding holds a Bachelor of Science (Hons.) in Biology from the University of Western Ontario.

SHABBIR T. ANIK, PH.D., M.B.A
EXECUTIVE VICE-PRESIDENT & CHIEF SCIENTIFIC OFFICER, PHARMACEUTICAL DEVELOPMENT SERVICES (PDS)

Dr. Anik received his Ph.D. in Pharmaceutical Sciences from the University of Wisconsin and his MBA from Santa Clara University. He began his career at Syntex Research where, over a 17-year period, he held positions of increasing responsibility in formulation development, technology transfer, manufacturing, analytical chemistry and program management. In 1995, he joined biotechnology company Neurex as head of Pharmaceutical Development and Operations, and in 1997 became Vice-President of Product Development with a California-based contract pharmaceutical development company. Dr. Anik joined Patheon in 1999 and is responsible for building Patheon's PDS business globally.

TOM L. FERGUSON
VICE-PRESIDENT, INFORMATION TECHNOLOGY

Mr. Ferguson is an accomplished IT professional who has been responsible for implementing a consistent systems strategy across Patheon's global network of facilities. After graduating from the University of Waterloo with an Honours Bachelor of Mathematics (Computer Science major) in 1989, Mr. Ferguson began his career with The Mutual Group, (now Sun Life Financial). He joined Patheon in 1993 and was appointed to his current position in 2000. He earned a Diploma in Accounting from Wilfrid Laurier University in 1993, and received his Certified Management Accountant designation in 1997.

RON J. QUON
SENIOR VICE-PRESIDENT, HUMAN RESOURCES, ENVIRONMENTAL, HEALTH & SAFETY

Mr. Quon brings a diverse range of management experience to his role, acquired during a 30-year career in the pharmaceutical industry. Prior to joining Patheon, Mr. Quon held progressively senior operational positions in several leading companies, including Sterling Health Limited, Rorer Canada Inc., Connaught Laboratories and the Upjohn Company. Mr. Quon joined Patheon in 1990 and was appointed to his current position in 1998. Mr. Quon holds a Bachelor of Science degree in Chemistry from McGill University.

RONALD B. MITCHELL, C.A.
CHIEF FINANCIAL OFFICER & SENIOR VICE-PRESIDENT, FINANCE AND TREASURER

Mr. Mitchell joined Patheon in 2001. He has more than 25 years of financial management experience with both major public and private companies, including extensive experience in financial reporting, financings, international corporate and tax structuring, mergers and acquisitions, financial control systems and business financial planning. He has previously held executive positions with Parmalat Canada, St. Joseph Corporation, and the Thomson Newspapers Corporation. Mr. Mitchell has a Bachelor of Arts (Hons.) from Queen's University and is a Chartered Accountant.

RICCARDO TRECROCE
GENERAL COUNSEL, SECRETARY & SENIOR VICE-PRESIDENT, CORPORATE ADMINISTRATION

Mr. Trecroce's background includes 20 years of corporate and commercial legal experience, focusing on acquisitions and divestitures, partnerships and joint ventures, shareholder relations, corporate governance and law firm management. Prior to joining Patheon in 2000, Mr. Trecroce was a partner for 12 years in the Toronto office of Fraser Milner Casgrain, one of Canada's leading business law firms. Mr. Trecroce holds a Bachelor of Arts degree in International Relations from Concordia University and Bachelor of Laws and Bachelor of Civil Law degrees from McGill University. He was called to the Bar in the province of Alberta, Canada in 1982 and in the province of Ontario, Canada in 1985.

Management Advisory Board

Established in 1999, the Management Advisory Board provides strategic counsel to Patheon's senior executives on current developments in the global pharmaceutical industry – guiding the Company toward achieving the leadership position in providing integrated pharmaceutical manufacturing and development services to the innovators in the industry.

G. JOE BLAKER, PH.D.
INDEPENDENT DIRECTOR AND BUSINESS ADVISOR

In 1999, Dr. Blaker joined Patheon's Management Advisory Board. Previously, he served as worldwide head of pharmaceutical and fine chemical manufacturing operations for Glaxo Wellcome, responsible for 53 manufacturing sites employing more than 18,000 people. Dr. Blaker serves as a non-executive director of a number of public companies, including Rhodia ChiRex Inc. and Weston Medical Group plc. In addition, he acts as advisor to several other pharmaceutical and chemical companies and is currently Chairman of the U.K. Government's Chemicals Foresight Panel. Dr. Blaker resides in Beaconsfield, England.

RUDOLF MEYER
BUSINESS ADVISOR

Mr. Meyer joined Patheon's Management Advisory Board in January 2002. An experienced pharmaceutical industry executive, Mr. Meyer served F. Hoffmann-La Roche during a distinguished 32-year career, most recently as Senior Vice-President of Global Supply Chain and Manufacturing. Mr. Meyer is fluent in German, English, French and Spanish and currently resides in Basel, Switzerland.

JOHN VALLEY, MBA
BUSINESS ADVISOR

Mr. Valley joined Patheon's Management Advisory Board in December 2002. In addition to executive positions with The Chase Manhattan Bank of Canada and Boise Cascade Ltd., Mr. Valley has served as an Assistant Deputy Minister for the Ontario Ministry of Natural Resources, and as an advisor to several provincial and federal government agencies in Canada. He is currently the Managing Partner of the consulting firm The Biscayne Group, as well as a member of the Board of Directors of Betacom Corporation Inc. and the Advisory Board of Prescott Paper Products. Mr. Valley resides in Oakville, Ontario, Canada.

Operations: North America & Europe

TORONTO REGION OPERATIONS
2100 Syntex Court
Mississauga, Ontario L5N 7K9
Canada
Tel.: (905) 821-4001
Site Director: Debbie Rak
- 631 employees
- 239,500 square feet
- High-potency, solid, semi-solid and liquid dosage forms

TORONTO YORK MILLS OPERATIONS
865 York Mills Road
Toronto, Ontario M3B 1Y5
Canada
Tel.: (416) 443-9030
Site Director: Roman B. Charko
- 197 employees
- 160,000 square feet
- Solid, semi-solid and liquid dosage forms

WHITBY OPERATIONS
111 Consumers Drive
Whitby, Ontario L1N 5Z5
Canada
Tel.: (905) 668-3368
Site Director: Fred Kilpatrick
- 429 employees
- 192,700 square feet
- Controlled substances, solid, powder and liquid dosage forms

BURLINGTON CENTURY OPERATIONS
977 Century Drive
Burlington, Ontario L7L 5J8
Canada
Tel.: (905) 639-5254
Site Director: Dick Renwick
- 106 employees
- 45,000 square feet
- Solid dosage forms

BURLINGTON GATEWAY OPERATIONS
921 Gateway Drive
Burlington, Ontario L7L 5K5
Canada
Tel.: (905) 639-4933
Site Director: Dick Renwick
- 84 employees
- 22,800 square feet
- Powders

NIAGARA REGION OPERATIONS
P.O. Box #158
333 Jarvis Street
Fort Erie, Ontario L2A 5M9
Canada
Tel.: (905) 871-1870
Site Director: Grant D. Gilker
- 347 employees
- 132,800 square feet
- Solid, semi-solid and liquid dosage forms

CINCINNATI OPERATIONS*
2110 East Galbraith Road
Cincinnati, OH 45215-6300
U.S.A.
Tel.: (513) 948-9111
Site Director: Ronald R. Schallick
- 530 employees
- 457,000 square feet
- Solid, semi-solid and liquid dosage forms

** Acquired December 31, 2002*

BOURGOIN-JALLIEU OPERATIONS
40, boulevard de Champaret
B.P. 448
38317 Bourgoin-Jallieu, Cedex
France
Tel.: +33 4 7493 8700
Site Director: Dominique Rivoire
- 231 employees
- 272,000 square feet
- Solid and liquid dosage forms

FERENTINO (ROME) OPERATIONS
Via Morolense 87
03013 Ferentino (FR)
Italy
Tel.: +39 0775 3991
Director, Italian Operations:
Bruno Picecchi
Site Director: Walter Sili
- 70 employees
- 144,000 square feet
- Sterile lyophilized and sterile liquid dosage forms

MONZA OPERATIONS
Viale G.B. Stucchi, 110
I-20052 Monza
Italy
Tel.: +39 039 2047 1
Director, Italian Operations:
Bruno Picecchi
Site Director: Antonella Mancuso
- 367 employees
- 344,000 square feet
- Sterile (liquids & lyophilized), solid and liquid dosage forms

SWINDON OPERATIONS
Kingfisher Drive
Covingham, Swindon
Wiltshire SN3 5BZ
England
Tel.: +44 1793 524411
Site Director: Michel Grandjean
- 552 employees
- 293,000 square feet
- Sterile liquids, sterile powdered cephalosporins, solid and semi-solid dosage forms

EUROPEAN BUSINESS OFFICE
Via Morolense 87
03013 Ferentino (FR)
Italy
Tel.: +39 0775 3991
Fax: +39 0775 399 259

CORPORATE OFFICE
7070 Mississauga Road
Suite 350
Mississauga, Ontario
Canada L5N 7J8
Tel.: (905) 821-4001
Fax: (905) 812-6705

SHAREHOLDER ACCOUNT ENQUIRIES
Computershare Trust Company of Canada
100 University Avenue, 9th floor
Toronto, Ontario M5J 2Y1
Canada
Tel.: 1-800-564-6253
Email: CARegistryInfo@computershare.com
Web site: http://www.computershare.com

TRANSFER AGENT AND REGISTRAR
Computershare Trust Company of Canada

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AUDITORS
Ernst & Young LLP

LEGAL COUNSEL
Davies Ward Phillips & Vineberg LLP
Toronto, Canada
Macfarlanes, London, England
Janni, Fauda, Brescia e Associate, Milan, Italy

BANKERS
CIBC
HSBC Bank
Banca IntesaBci Mediocredito S.p.A.

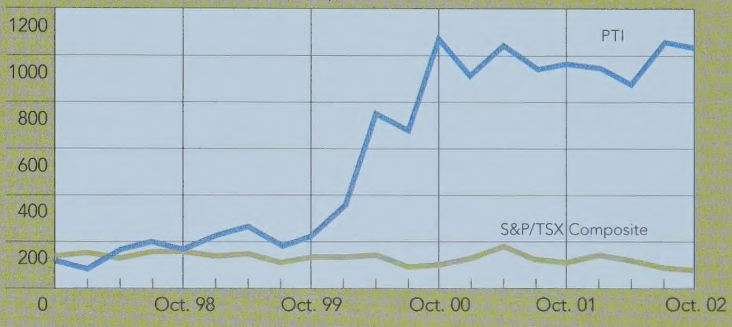
DIVIDEND POLICY
The Board of Directors periodically reviews the dividend policy of Patheon Inc.

The Company currently does not pay dividends on its common shares, and has no plans to do so in the foreseeable future, preferring to reinvest its cash to enhance the Company's growth.

SHARE INFORMATION
as of October 31, 2002, except recent price

Listing: Toronto Stock Exchange (TSX)
Symbol: PTI
Shares Outstanding: 50,913,022
Public Float: 49,911,000
High/Low/Close: $14.70/$9.10/$14.24
Recent Price (January 31, 2003): $15.50

Patheon Stock Performance vs S&P/TSX Composite
(Value of $100 invested on October 31, 1997)



ANNUAL MEETING
Shareholders are invited to attend Patheon's Annual and Special Meeting of common shareholders to be held at 10:30 a.m. (Eastern Standard Time) on Tuesday, March 18, 2003:

Toronto Hilton Hotel
Toronto Ballroom
145 Richmond Street West
Toronto, Ontario
Canada

The meeting will be broadcast live over the Internet on Patheon's website at **www.patheon.com**. An archived version of the webcast will be available on Patheon's website after the meeting.

www.patheon.com